Shell Canada Limited

1997 Annual Report

*A year of growth towards industry leadership in profitability*

# Corporate Profile

*Shell Canada Limited is one of the largest integrated petroleum companies in Canada. Shell is committed to discovering and developing hydrocarbon reserves and to providing customers with quality products at a profit to shareholders. The Company's Resources segment is one of the country's largest producers of crude oil, natural gas, natural gas liquids, sulphur and bitumen. Through Shell Canada Products Limited, the Company manufactures, distributes and markets refined petroleum products across the country.*

# Highlights

## FINANCIAL HIGHLIGHTS

| *($ millions except as noted)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Earnings | **523** | 595 | 523 |
| Earnings from continuing operations | **523** | 326 | 302 |
| Cash flow from continuing operations | **940** | 750 | 721 |
| Capital and exploration expenditures | **520** | 442 | 384 |
| Return on average capital employed from continuing operations *(%)* [1] | **13.5** | 8.8 | 9.3 |
| Return on average capital employed *(%)* [1] | **13.5** | 14.8 | 14.1 |
| Return on net investment *(%)* | **10.9** | 11.9 | 11.4 |
| Return on average common shareholders' equity *(%)* | **14.8** | 16.3 | 16.0 |
| Per Class "A" Common Share *(dollars)* | | | |
| Earnings | **1.69** | 1.77 | 1.55 |
| Earnings from continuing operations | **1.69** | 0.96 | 0.90 |
| Cash flow from continuing operations | **3.03** | 2.22 | 2.14 |
| Dividends paid | **0.66** | 0.60 | 0.50 |

## OPERATING HIGHLIGHTS

| | **1997** | 1996 | 1995 |
|---|---|---|---|
| **Production** | | | |
| Natural gas – gross *(mmcf/d)* | **667** | 697 | 696 |
| Crude oil and bitumen – gross *(bbls/d)* | **26 500** | 29 700 | 28 100 |
| Condensate – gross *(bbls/d)* | **24 600** | 24 900 | 22 700 |
| Ethane, propane and butane – gross *(bbls/d)* | **31 300** | 32 600 | 28 900 |
| Sulphur – gross *(long tons/d)* | **6 643** | 6 386 | 6 180 |
| Crude oil processed by Shell refineries *($m^3/d$)* | **41 200** | 40 400 | 38 900 |
| **Sales** | | | |
| Natural gas sales from own production – gross *(mmcf/d)* | **647** | 689 | 683 |
| Sulphur sales from own production – gross *(long tons/d)* | **6 886** | 5 607 | 5 889 |
| Petroleum product sales *($m^3/d$)* | **44 400** | 43 500 | 41 000 |
| **Prices** | | | |
| Natural gas average plant gate netback price *($/mcf)* | **1.86** | 1.69 | 1.50 |
| Crude oil average field gate price *($/bbl)* | **25.80** | 26.14 | 22.01 |
| Condensate average field gate price *($/bbl)* | **26.74** | 25.55 | 19.17 |
| Ethane, propane and butane *($/bbl)* | **10.93** | 10.02 | 7.50 |

[1] *Return on average capital employed is used throughout the Annual Report. This measure is widely used in the oil and gas industry. To provide investors with comparable performance measures, Shell has adopted return on average capital employed in place of return on net investment.*

*Unless the content indicates otherwise, the terms Shell, Shell Canada, Shell Canada Limited, Corporation, Company, we, our and its are used interchangeably in this report to refer to Shell Canada Limited and consolidated subsidiaries.*

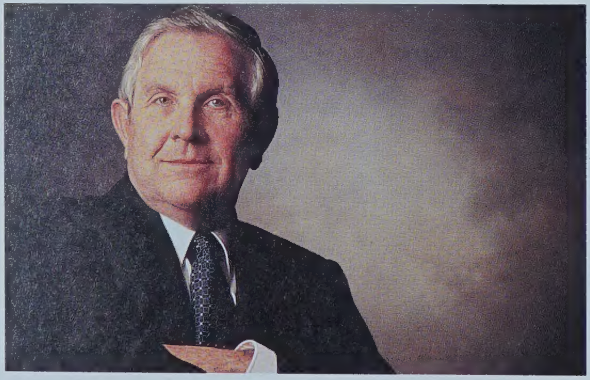
# President's Message

*I am pleased to report that 1997 was an outstanding year for Shell Canada Limited with record earnings from operations of $523 million. The Company also made significant progress towards future growth.*

The performance of both Resources and Oil Products businesses is the culmination of several years' continued improvement and attention to operational excellence in our day to day business. These factors, combined with a strong North American and global economy, positioned the Company to deliver significantly improved earnings. Equally important was the contribution of Shell Canada employees. I thank them for their continued commitment and hard work.

In past years, we have outlined our plans to achieve a base business performance that would provide shareholders with a 15 per cent return on average capital employed by 1999. In 1997, we attained a return of 13.5 per cent. This compares to a return of 8.8 per cent from operations in 1996 when the one-time gain from the sale of our Chemicals business is excluded.

Charles W. Wilson
President and
Chief Executive Officer



*"Record operational earnings together with significant progress towards future growth made 1997 an outstanding year."*

In each of the past five years, we have been able to report steady progress toward our targets. We were determined to build a solid foundation for sustained profitability, and I believe we have done that. With that success, we have been able to turn our attention to growth and in 1997 Shell continued to pursue major opportunities for the future.

### 1997 HIGHLIGHTS

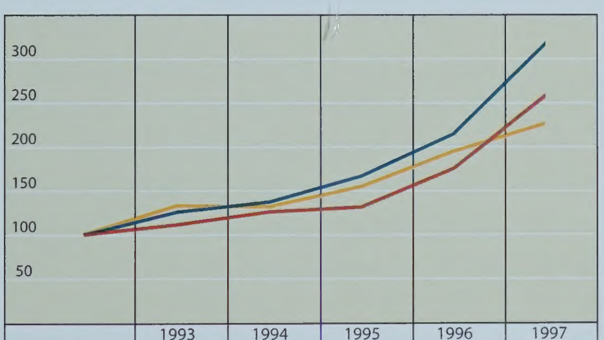
Before outlining those growth opportunities, I will highlight some of the noteworthy achievements of this past year.

- *Both Resources and Oil Products achieved outstanding results. Resources earned $264 million while Oil Products earned $252 million. Indeed, both business segments surpassed their return targets and were among the most profitable in the industry.*
- *In mid-1997, we conducted a share buy-back program that distributed $976 million of retained cash to shareholders and reduced our capital employed. The reduced number of shares and improved earnings from our record business performance allowed us to raise our quarterly dividend to $0.18 from $0.15 per share, a 20 per cent increase. Shell also undertook a three-for-one share split at mid year.*

- *We have replaced 320 per cent of our oil and gas production on a gross energy-related barrel-of-oil equivalent basis. The majority of these additions to reserves came from East Coast offshore.*
- *Our company safety record continues to be among the best of our industry peers. The lost-time injury frequency for employees equalled our record set in 1996 at 0.08 injuries per 200,000 work-hours. Contractor safety was our best ever with a lost-time injury frequency rate of 0.36. This compares with our previous best of 0.68 in 1993.*
- *The Company remains committed to the Voluntary Challenge and Registry Program to reduce greenhouse gases. We believe that the goal of stabilizing Shell's total greenhouse gas emissions at 1990 levels by the year 2000 for the 1994 level of business activity is achievable. By the end of 1997, we had reduced carbon dioxide emissions by an estimated 670,000 tonnes per year.*

**Shareholder Return** *(index value)*

The total return to shareholders has exceeded the TSE 300 total return index.




| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| SHC | 113 | 129 | 134 | 173 | 257 |
| TSE 300 | 133 | 132 | 152 | 194 | 224 |
| Integrated Oils | 124 | 137 | 164 | 213 | 317 |

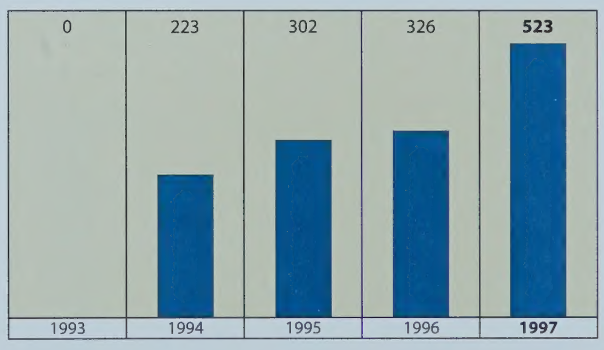
## LOOKING AHEAD

Over the next five years, Shell Canada plans to invest $5 billion in all parts of the business. These new investments will enable us to meet our long-term target of a 15 per cent return on average capital employed for the Company. Some of these investments will require large capital outlays over that period, and there will be lags between the initial investments and resulting income. Therefore, returns on the total business are expected to decrease slightly over the next few years.

In 1998 and 1999, we will invest $600 million in the Sable Offshore Energy Project off the east coast of Nova Scotia. We expect production to begin in late 1999 or early 2000, which will increase our gas production by 25 per cent. Several additional opportunities in the Sable area hold exciting potential for investment beyond the current project.

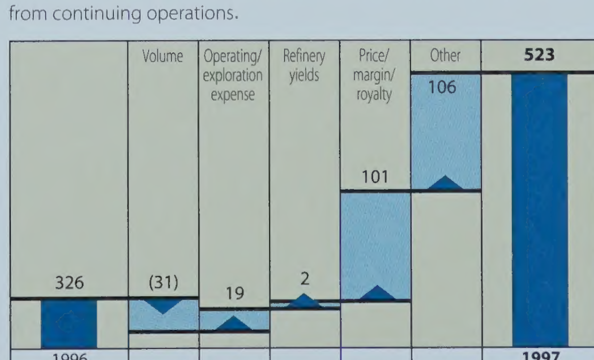
**Earnings from Continuing Operations** *($ millions)*

Earnings from continuing operations increased for the fourth consecutive year.




**Earnings Analysis** *($ millions)*

Prices, asset sales, and reduced operating costs raised earnings from continuing operations.

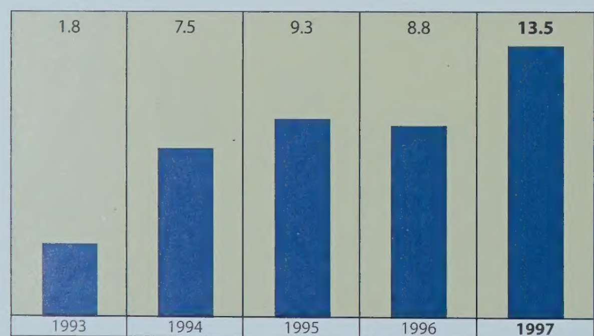


During 1997, we also made significant strides with our Oil Sands feasibility assessment. The Broken Hill Proprietary Company Limited (BHP), a global mining company, acquired the right to a 25 per cent interest in the project. Shell and BHP are working towards demonstration-scale processing projects in 1998 to prove the technology and economics of this potential $3.4-billion investment in the Athabasca oil sands. The companies will spend $109 million in 1998. Success will lead to project approval in 1999 and production should start in mid-2002. Shell's Athabasca leases contain more than nine billion barrels of recoverable bitumen reserves and we anticipate further long-term prospects in this area.

In addition to the $362 million to be spent in 1998 on Sable and Oil Sands, Shell also will invest $529 million in its base business. The capital program includes $207 million for Resources development projects, $71 million for exploration, and $180 million for the Oil Products business.

**Return on Average Capital Employed** *(per cent)*

The increased return reflects a combination of improved earnings and reduced capital employed.




The upstream industry faces a common challenge in the future. Significantly increased costs have caused a rise in finding and developing costs. This escalation in costs combined with more modest oil and gas prices will make profitable exploration difficult. To confront this challenge, Shell will select its exploration and development targets carefully. The Company will continue to focus on areas around existing infrastructure. We are also examining opportunities outside the Western Canada Basin, including offshore Nova Scotia.

A balanced approach of delivering superior performance from existing assets while investing in profitable new projects will allow the Company to remain financially robust. Our existing cash position and future cash generation will keep our balance sheet strong.

Overall, 1997 was a remarkable year for Shell Canada. Your Company is healthy and robust, and is facing the challenges of future opportunities with determination. Again, I attribute much of our success to the men and women who provide the spirit and enterprise in a successful company. I am proud to be associated with these talented people.

In conclusion, let me also pay tribute to the contribution of Lorne K. Lodge, who retired as a director of the Company in 1997. I also thank Cornelius A.J. Herkströter, President and Managing Director of the Royal Dutch Petroleum Company, who will retire in 1998 after six years of service as a director of the Company. Their guidance and stewardship were invaluable.

On behalf of the Board,

C. W. Wilson

**Charles W. Wilson**

*President and Chief Executive Officer*
*March 1998*

# Management's Discussion and Analysis

*Shell Canada's earnings from continuing operations for 1997 were a record $523 million, or $1.69 per Class "A" Common Share, compared to earnings of $326 million for 1996, an improvement of 61 per cent. Total reported earnings in 1996 were $595 million or $1.77 per share which included the Chemicals business sold at the end of the year. Oil Products achieved record earnings due to improved margins and higher sales volumes. Resources recorded slightly lower earnings through reduced volumes.*

*Return on average capital employed was 13.5 per cent in 1997 compared to 8.8 per cent for 1996 excluding the Chemicals business. Return on average capital employed including the Chemicals business in 1996 was 14.8 per cent. Cash from operations (before movements in working capital) increased to $940 million compared to $750 million for the same period in 1996.*

*Capital expenditures in 1997 were $520 million compared to $442 million in 1996.*

*Management's Discussion and Analysis includes the discussion of Resources, Oil Sands, Oil Products and Corporate activities up to and including page 28.*

# Resources

*Resources earnings for 1997 were $264 million compared to $292 million in 1996. Reduced volumes due to asset sales and plant turnarounds, partially offset by a drop in operating and exploration expense, was the principal reason for the earnings reduction. Return on average capital employed was 15.3 per cent in 1997 compared to 16.7 per cent in 1996. Resources capital and exploration expenditures were $352 million in 1997 compared to $278 million the previous year.*

## NATURAL GAS

**Sable Offshore Energy Project Go-Ahead** The Sable Offshore Energy Project, operated jointly by Shell, Mobil Oil Canada Properties, Imperial Oil Resources Limited and Nova Scotia Resources (Ventures) Limited, continued towards its scheduled start-up in late 1999 or early 2000. Federal and provincial regulators approved the project during the fourth quarter of 1997. National Energy Board approvals for the gas transmission pipeline were granted in December 1997.

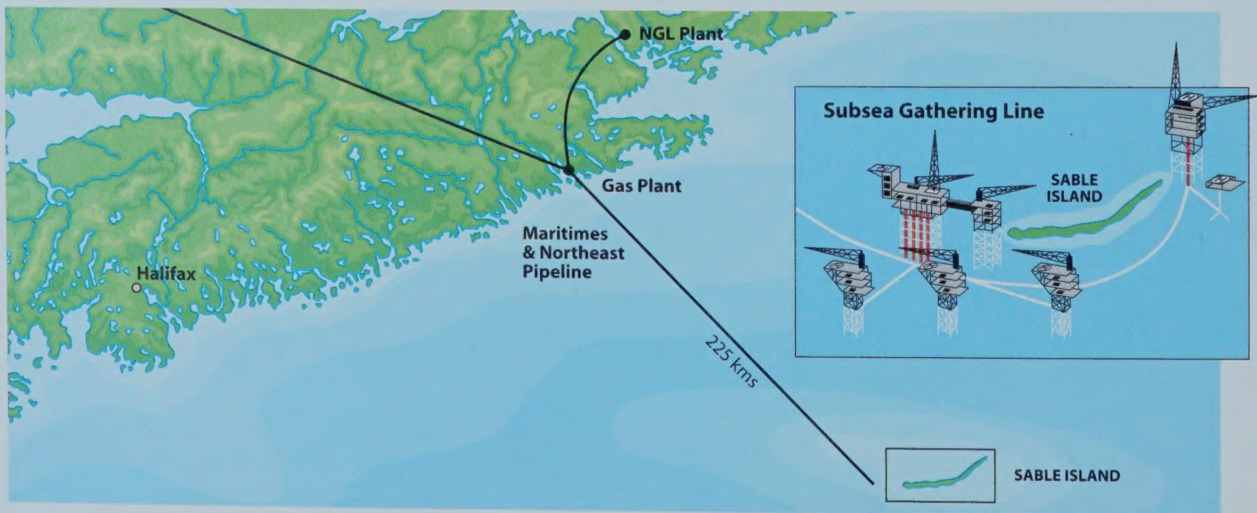
The project will be developed in two phases. Phase 1 will include the drilling and development of three fields, as well as the completion of offshore processing facilities, subsea pipelines, an onshore gas processing plant, a natural gas liquids pipeline and a fractionation plant. Phase 1 project costs are expected to be $2 billion. Phase 2 will involve the drilling and development of three additional fields at a cost of $1 billion.

Shell increased its share in the project in exchange for part of the Harmattan East gas field. The equalization of interests in the six fields comprising the project is now complete. Shell's overall interest is 31.3 per cent.

On completion, Sable will produce more than 500 million cubic feet of gas per day for markets in Eastern Canada and the U.S. Northeast. In 1997, following regulatory approval of the project, Shell recognized its additional share of the gross reserves – 950 billion cubic feet of gas and 45 million barrels of natural gas liquids (NGL).

### Resources Highlights

| *($ millions except as noted)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Revenues | **969** | 1 053 | 842 |
| Earnings | **264** | 292 | 174 |
| Capital employed | **1 696** | 1 759 | 1 748 |
| Capital and exploration expenditures | **352** | 278 | 271 |
| Return on average capital employed *(%)* | **15.3** | 16.7 | 9.9 |



*Workers at the MM Industra Yard in Dartmouth, Nova Scotia oversee the fabrication of a jacket for the Thebaud offshore platform. The jacket, one of two to be completed in March, will support a Sable Offshore Energy Project drilling platform. Overlooking the city of Halifax, the construction is a visible sign to Nova Scotia residents that the development of natural gas reserves offshore Nova Scotia by Shell Canada and its partners is under way.*

**Neal G. McKim**
*Senior Operating Officer, Resources*

*"While today's income is generated by the mature western basin, the go-ahead for the Sable project provides a strong growth opportunity for the future."*

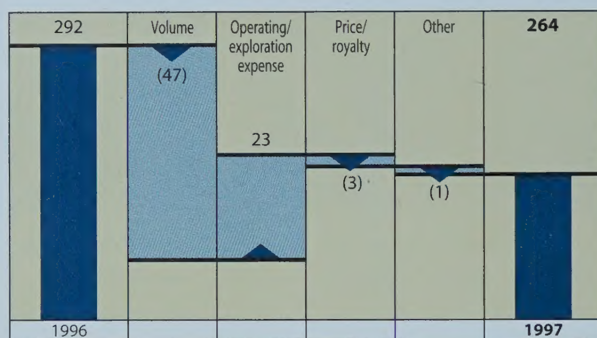
**Prices and Demand** High prices at the end of 1996 carried over into 1997 as the weather remained cold in North America. Summer 1997 Alberta prices were consistently better than those of the year before, reflecting both strong industrial demand and the refill of western storage levels depleted to unusually low levels after the cold winter of 1996/97. The average plant netback price improved to $1.86 per thousand cubic feet compared to $1.69 in 1996. At 667 million cubic feet per day, production volumes were lower than the previous year's level of 697 million cubic feet per day, mainly due to asset sales.

**Gas Marketing Joint Venture** Before 1997, Shell maintained a diverse portfolio of fixed and floating price contracts indexed to markets throughout North America. In early 1997, Shell restructured the marketing of its natural gas after joining a venture with Shell Oil Company and Tejas Gas Corporation, both of the United States. Natural gas marketing operations are through two entities: Coral Energy Canada Inc. and Coral Energy, L.P. Shell Canada has a 12 per cent interest in both. Since the restructuring, Shell sells its natural gas production to Coral at Alberta market-based prices. After Shell Canada joined the venture, Shell Oil Company purchased Tejas Gas Corporation effective January 1998. Coral is now fully owned by Shell Oil and Shell Canada.

**Caroline Increased Throughput** Following the approval of increased licence throughput rates in April 1997, the Caroline complex operated reliably up to 120 per cent of original design capacity. The licence approval followed an extensive public hearing and community consultation. Plant modifications made during the 1995 plant turnaround allowed the plant to achieve higher throughput rates.

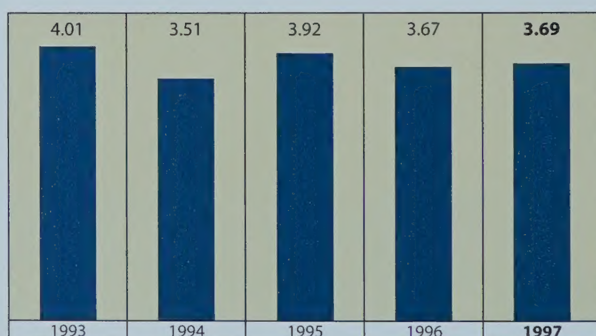
**Resources Earnings in 1997** *($ millions)*

Although partially offset by lower costs, volume reductions resulted in lower earnings.




**Resources Unit Costs** *($/barrel-of-oil equivalent)*

The volume reduction resulted in a slight rise in unit operating costs.



**Jumping Pound Increased Interest and Successful Development Drilling** Shell relinquished its working interest in the Weyburn oil unit in exchange for a larger share in the Jumping Pound field and gas plant. The Company now owns all of the Jumping Pound plant and 90 per cent of the field. Two successful infill development wells increased production by 14 million cubic feet per day. Shell completed a three-dimensional seismic survey to identify drilling locations for 1998 and beyond.

**Waterton Field Optimization** Waterton has improved its production by 40 million cubic feet of gas per day through a program of well workovers, conversions to casing flow, recompletions and compression. These field initiatives have maximized production from Waterton which, in 1997, celebrated 40 years of exploration and production and 35 years of plant and field operations.

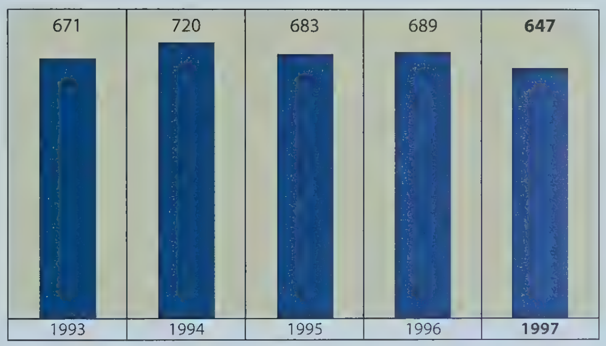
**Panther River** A program began in 1997 to investigate the viability of developing and adding to the natural gas reserves of one trillion cubic feet of original gas in place. Shell is investigating the use of horizontal sidetrack drilling combined with multiple acid fracture treatments along the horizontal well bore. In 1997, the Company completed and placed on production two wells, which added 6.4 million cubic feet per day of gas production. The initial performance of these wells has demonstrated the viability of these technologies and Shell is reviewing the economic feasibility of a large project. Work will continue in 1998.

**Pipeline Projects** A lack of support and firm commitment from producers prompted the cancellation of the Alberta Pipeline project, which had been announced in 1996. In 1997, the Company suspended the Crowsnest Pipeline project, also announced in 1996. Shell continues to be active in industry discussions on gas transportation rate restructuring aimed at reducing transportation costs.

**Northeastern British Columbia Interests Sold** Towards the end of 1997, Shell was negotiating the sale of its interests in northeastern British Columbia. The sale was completed in January 1998.

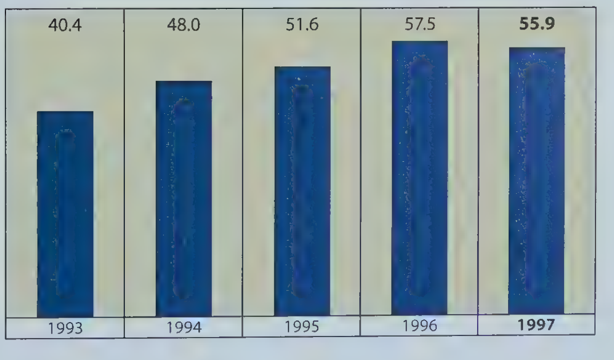
**Gross Natural Gas Sales Decrease** *(millions of cubic feet/day)*

Volume loss through property sales reduced natural gas sales.




**Gross Production of Natural Gas Liquids**
*(thousands of barrels/day)*

Asset sales and plant turnarounds reduced NGL production.



## NATURAL GAS LIQUIDS

**Prices and Demand** Overall prices for natural gas liquids remained strong in 1997 and were comparable to average 1996 levels. Ethane prices tracked natural gas values and were generally stronger in 1997 as a stronger economy supported demand for petrochemical feedstocks. Propane prices were robust through the first quarter as inventories fell to record low levels. By the start of the 1997 winter, replenished propane inventories exceeded historical norms and prices fell. Butane prices continued to track 1996 levels supported by crude oil and gasoline values. Efforts to broaden the end-user market portfolio continue to provide a direct improvement to netbacks for natural gas liquids prices.

## CRUDE OIL AND BITUMEN

**Prices** Crude oil prices were strong in 1997 although somewhat lower than in 1996. Average light to heavy differentials were wider than in 1996 as the increased supply of heavy crude oil continued. As a result, conventional condensate values improved for diluent purposes, and spot premiums exceeded par crude values by up to $5 per barrel at year end. The values of Caroline condensate, which is not used as a diluent, also improved with increased interest in the product as a refinery feedstock. Prices were comparable to par crude values at year end.

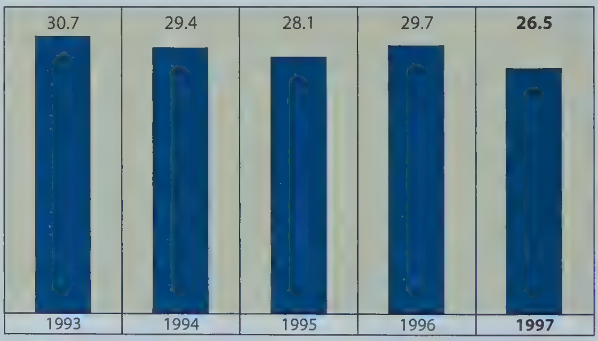
**Bitumen Success** Technological advancements at Peace River in-situ oil sands showed significant progress in 1997. New technologies such as steam-assisted gravity-drainage (SAGD) and soak radial wells offset declining vertical well production. The SAGD wells are in pairs; a steam injection well lies above a producing well. The successful SAGD program in 1996 led to five additional wells which will come on stream in 1998. Three soak radial wells were producing in 1997. Their success led to a further 12-well program that commenced in 1997. Soak radial wells operate in a huff and puff mode, using one vertical well with four lateral arms. Early results from both types of well were encouraging. Shell will continue to monitor results and prove new technologies. Gross bitumen and asphalt production at Peace River was 6,000 barrels per day in 1997.

**Conventional Oil** Horizontal wells in southeastern Saskatchewan and Swan Hills continue to yield maximum value. In Midale, five horizontal injection and 14 horizontal production wells were drilled. At Swan Hills a geological study was completed. Five successful horizontal production wells and one injection conversion well were drilled.

**Production** Due to asset sales, gross crude oil production dropped to 20,500 barrels per day in 1997 from 23,600 in the previous year.

**Midale Deep Sale** In February 1997, Shell sold its deep oil production and partial interests in exploration lands near Midale, Saskatchewan, for $60 million.

**Gross Production of Crude Oil and Bitumen**
*(thousands of barrels/day)*
Crude oil production fell as Shell sold two oilfields.



## SULPHUR

**Supply and Demand** In 1997, world demand for phosphate fertilizers strengthened in a more stable, balanced sulphur market. Canadian sulphur exports increased by more than five per cent despite severe weather conditions in the first quarter of 1997 and competitive pressure from the Middle East.

**Sales** Gross sales from Shell's own sulphur production increased to a record level of 6,900 long tons per day from 5,600 long tons per day in 1996. Offshore prices returned to the U.S. $35-per-tonne level at Vancouver after the market had eroded to a low of U.S. $25 per tonne during the second half of 1996. However, by year end prices had slipped back to 1996 levels. The business environment continues to be competitive, but Shell expects to maintain a strong marketing position.

## EXPLORATION

**Program Cost** Shell's exploration program totalled $72 million in 1997 compared to $91 million in 1996. Exploration activities focused on Shell's gas complexes and existing industry infrastructure, particularly on deep sour gas. The Company wound up its oil exploration in the Karr area and in Midale by the end of 1997.

**Exploration Wells** Thirteen exploration wells were declared in 1997. Five were classed as discoveries and eight were dry. At year end, a further four wells were drilling and one was standing.

**Wildcat Hills** Following the 1996 drilling success in Wildcat Hills, the follow-up horizontal well began to produce in 1997. Further activity included two wells at Benjamin, one being drilled at year end while the other produced gas on test. There are plans to drill more wells and debottleneck facilities in this area.

**Karr/Simonette** Exploration at Karr/Simonette ceased in 1997 with the completion of three wells at Karr. One was recompleted as an oil well and the other two encountered marginal oil and gas in shallow formations. A total of 16 farm-out wells were drilled in this area and three came on production. The Company is waiting for results on several others. Shell negotiated farm-out agreements for 11 deeper wells to be drilled by the end of 1998.

**Northwest Territories** Under a farm-out agreement in the Northwest Territories, one well was drilled and was testing at year end. A second well was drilling at year end just south of the border in British Columbia. Two option wells will be drilled in the Northwest Territories in 1998.

**Quebec** Shell farmed into exploration rights for Anticosti Island. Under the farm-in, the Company will conduct seismic surveys and drill four exploration wells. The first two wells will be drilled in 1998.

*Shell Community Affairs Representative Alice Murray stands beneath one of the huge, new aerial coolers installed at the Caroline complex. This new equipment helped Caroline to achieve an increase in throughput which enables the plant to operate at 120 per cent of its design capacity.*

## RESERVES

Gross proved hydrocarbon reserves increased significantly over 1996 levels due to the Sable Offshore Energy Project. Following regulatory approval of the project towards the end of 1997, Shell recognized the remainder of its share of the gross reserves: an additional 950 billion cubic feet of gas and 45 million barrels of natural gas liquids.

Revisions to previous estimates further increased the natural gas and natural gas liquids gross reserves. The natural gas life index now stands at 14 years based on 1997 production. Crude oil gross reserves diminished due to property sales and production exceeding replacement. The crude oil life index was 9.5 years at the end of 1997. The successful application of horizontal well technology at Peace River led to an increase in bitumen gross reserves.

## LOOKING AHEAD

Resources objective is to sustain a 15 per cent return on average capital employed on the base business. This return excludes the large capital investment associated with the Sable project. Shell expects the total Resources return on average capital employed to drop to around 12 per cent during project construction, recovering to 15 per cent when Sable is fully on stream.

**Strategy Targets Profitability and Growth** Resources will emphasize four key areas for future profitability and growth:

- *achieving and sustaining operational excellence at existing complexes;*
- *making selective exploration investments in areas where Shell can create maximum value;*
- *continuing investment around existing sour gas infrastructures while pursuing investment in the Sable project and other East Coast opportunities;*
- *further increasing bitumen production from Peace River while the Company continues to maximize the value of its conventional oil portfolio.*

**Capital and Exploration Investment** Resources plans capital and exploration expenditures of $576 million for 1998. Shell will spend $71 million on exploration. The Company has allocated $495 million to development projects including $288 million for Sable, and $9 million for marketing and other investments. Shell will spend 97 per cent of its capital investment to improve profitability in the Western Canada Sedimentary Basin and offshore Nova Scotia.

### Proved Developed and Undeveloped Reserves

| | Crude Oil & Bitumen *(millions of barrels)* | | Natural Gas Liquids *(millions of barrels)* | | Natural Gas *(billions of cubic feet)* | | Sulphur *(millions of long tons)* | |
|---|---|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| 1993 | 83 | 72 | 261 | 244 | 3 011 | 2 588 | 30 | 29 |
| 1994 | 100 | 84 | 243 | 223 | 2 914 | 2 494 | 28 | 27 |
| 1995 | 126 | 105 | 233 | 211 | 2 826 | 2 411 | 28 | 27 |
| 1996 | 193 | 153 | 197 | 161 | 2 628 | 2 053 | 26 | 24 |
| **1997** | **186** | **170** | **235** | **212** | **3 399** | **3 010** | **26** | **24** |

# Oil Sands

*In the Athabasca oil sands region of northern Alberta, Shell's leaseholdings contain an estimated nine billion barrels of mineable recoverable bitumen. During 1997, the Company made significant progress towards the development of these reserves. Shell completed a pre-feasibility study, obtained mining expertise through a joint venture with The Broken Hill Proprietary Company Limited and began to build a demonstration plant to test a new bitumen extraction and clean-up process.*

**Public Disclosures** Shell began the regulatory process by making public disclosures on the three key pieces of the proposed integrated project: the Muskeg River Mine on Lease 13, north of Fort McMurray, Alberta; the Corridor Pipeline from Lease 13 to Scotford; and the Scotford Upgrader (to be located at Shell's Scotford refinery site near Edmonton, Alberta). The proposed oil sands project will cost approximately $3.4 billion (1997 dollars) to build. Start-up is targeted for 2002 with production of 150,000 barrels per day of upgraded refinery feedstocks.

**Joint Venture with BHP** The Broken Hill Proprietary Company Limited (BHP) funded 25 per cent of the $25-million pre-feasibility study which was conducted on the project in 1997. BHP is Australia's largest industrial and natural resources company. It brings extensive mining and mineral processing expertise to the project. BHP will continue to participate by funding 25 per cent of the $109-million feasibility study begun at the end of 1997.


**Regulatory Approval Process Moves Forward** The regulatory approval process for the project made substantial headway during 1997 with the filing of a regulatory application for the Muskeg River Mine in December. Filing of the upgrader application occurred in early 1998 and the pipeline application will be filed later in the year.

**New Technologies Developed** Shell is also moving forward with the development of new technologies to improve the efficiency and environmental performance of bitumen extraction and cleanup. During 1997, Shell conducted extensive pilot work at its laboratories in Calgary as well as at the CANMET research facilities in Edmonton and BHP's mineral processing laboratory in Reno, Nevada. Based on the success of this work, construction began on a demonstration pilot plant late in 1997. This plant, to be built on the Lease 13 site, will further refine the bitumen extraction and clean-up processes, and provide data for the detailed engineering design of the commercial facilities.

## LOOKING AHEAD

The Athabasca oil sands project presents an important growth opportunity for Shell. This initial development could more than double the Company's total oil and gas production and, upon project approval, will add more than one billion barrels of bitumen reserves. This represents a fivefold increase over the existing crude oil and bitumen reserve base.

**Strategic Direction** Shell's immediate objective is to develop a robust, profitable project on Lease 13. The Company plans to commence construction of the project in 1999 subject to a favourable feasibility study and regulatory approvals.

**Capital Investment** Shell has budgeted $74 million in capital expenditures for its share of the oil sands project in 1998.

*Modules of the oil sands extraction pilot plant under construction near Edmonton, Alberta. The modules will be trucked to the Muskeg River Mine site on Lease 13 where the pilot will provide design information for a commercial facility.*

# Oil Products

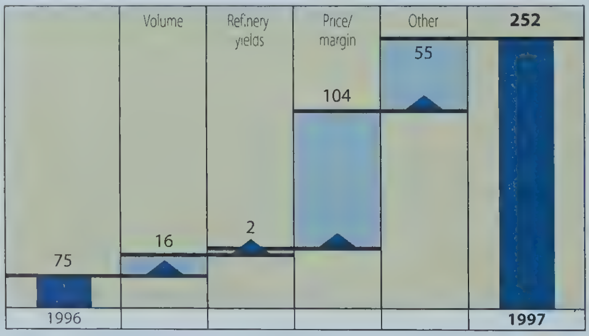
*Oil Products earnings for 1997 were a record $252 million compared to $75 million for the previous year. Improved margins, a continued focus on costs, and higher sales volumes due both to a stronger Canadian economy and the performance of the refining and marketing businesses all contributed to this result. Return on average capital employed increased significantly to 14.7 per cent in 1997 compared to 4.3 per cent in 1996. Oil Products 1997 capital expenditures were $150 million, down from $160 million in 1996.*

With a commitment to be the industry leader among downstream oil companies in Canada, Shell continued to manage its business under the premise of operational excellence.

The Oil Products business made significant gains in 1997. Shell ended the year with earnings of 1.56 cents per litre of product sold, the leader among the integrated downstream companies.

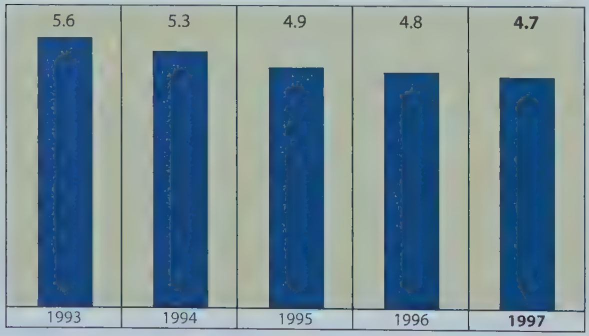
**Oil Products Earnings Up** *($ millions)*

Improved margins and reduced costs were major contributors to increased earnings.




**Oil Products Unit Costs Continue to Decline** *(¢/litre)*

A focus on costs has been rewarded with a continuing decline in unit costs.




Unit operating costs were among the lowest in the industry. Declining again in 1997, they have now fallen by 16 per cent since 1993. Initiatives to increase sales and to enhance margins at the refineries created other improvements.

## MANUFACTURING AND SUPPLY

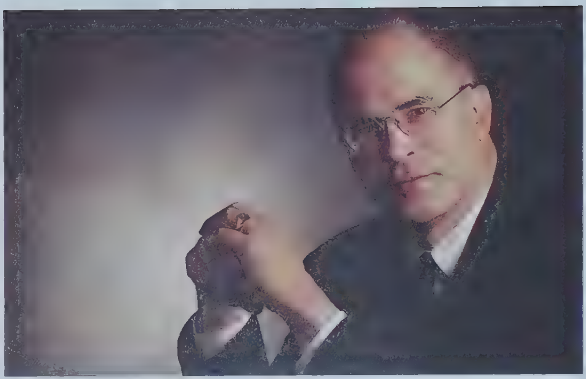
In 1996, Shell made significant progress in enhancing the overall performance of the refineries. The Company made further gains in 1997 by increasing refinery yield through initiatives that increased refinery capacity, used new feedstocks and optimized energy usage. Through these efforts, operating costs were held level from 1996 to 1997.

Critical to the profitability of any refinery is reliability – the amount of time the refinery is running and available to capitalize on market opportunities. The Shell refineries continued to perform among the best in the industry in 1997, although the Eastern Canadian operations still have room for improvement.

**Oil Products Highlights**

| *($ millions except as noted)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Revenues | **4 610** | 4 451 | 3 919 |
| Earnings | **252** | 75 | 175 |
| Capital employed | **1 740** | 1 689 | 1 820 |
| Capital expenditures | **150** | 160 | 101 |
| Return on average capital employed *(%)* | **14.7** | 4.3 | 9.4 |

*Scotford's steam methane reformer produces hydrogen by mixing natural gas and steam over catalyst at high temperature. The unit generates hydrogen necessary for the hydrocracking process which breaks down heavier feedstock into lighter products. Shell proposes to incorporate two more reformers in a new upgrader at Scotford that would refine bitumen from Lease 13.*



**Rob J. Routs**

*Senior Operating Officer, Oil Products*

*"Growth, fuelled by both retail investment and the economy, coupled with cost control and operational excellence have resulted in record Oil Products earnings."*

In a recent North American industry study for 1996, all three Shell refineries achieved excellent results and were among the top one-third industry performers in a number of critical operating measures.

A significant change in supply dynamics will occur with the reversal of Line 9, which is used to move crude oil from Sarnia to Montreal. This reversal, approved at the end of 1997, will enable Shell to take full advantage of the flexibility for Sarnia to share in any benefits available through the purchase of offshore crudes. Shell expects that reduced pipeline tariffs will provide further gains. The reversal is expected to be operational by the end of 1998.

**Scotford Refinery Capacity Increase** Debottlenecking at Scotford continues to show results. The refinery increased throughput capacity to 14,200 cubic metres per day in 1997 from 12,500 cubic metres per day in 1996.

**Sarnia Refinery Enhancements** Work in Sarnia has enhanced performance in several key areas. The refinery now has the ability to process condensate feedstock in addition to its overall crude processing capacity of 11,400 cubic metres per day. Other investments increased the production of aviation fuel to 800 cubic metres per day and greatly reduced energy usage through a modification to the #1 crude unit.

**National Gasoline Standard** The publication of the Benzene in Gasoline Regulation in late 1997 revealed an important element of a national gasoline standard. This regulation, slated for implementation in 1999, will reduce the average benzene content in Canadian gasoline by more than 40 per cent. Other aspects of gasoline quality are being assessed to find additional opportunities to reduce vehicle emissions. Shell's plans incorporate these and other anticipated changes, placing the Company in a competitive position.

**Distribution Terminals Maintain First-Quartile Performance** For the third successive year, Shell's network of fuel distribution terminals rated in the first quartile in an independent study of terminal networks throughout North America. Included in this study for the first time was the benchmarking of delivery. The Company continues to look for further opportunities to improve terminal efficiency.

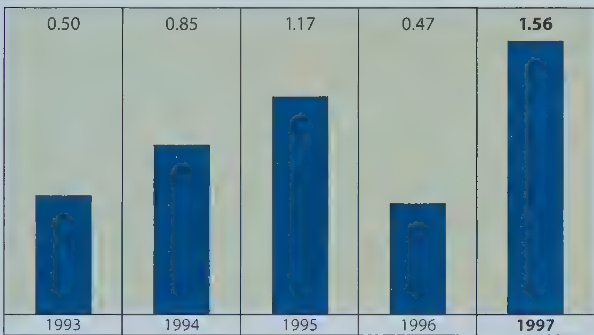
## RETAIL AND COMMERCIAL

Retail operations reported both improved margins and sales volumes compared to 1996. The increase in gross domestic product for Canada and the robust Ontario economy in particular were major contributing factors which benefited the industry as a whole. Shell's retail sales increased by almost five per cent. Combined with the Company's private-brand network, total market share increased to 19 per cent. At the same time, the contribution from non-petroleum products and services continues to grow. These factors combined with low-cost operations resulted in much improved profitability.

Shell's commercial operations include the agency, aviation, commercial branded sales, lubricants and wholesale as well as customer service for both retail and commercial marketing. The financial performance of the commercial operations significantly improved over 1996 due to enhanced margins and volumes, the continuing benefits of cost reductions, asset rationalization and selective network upgrades. Strong growth in the Canadian economy has led to an increase of seven per cent in diesel fuel demand and two per cent in aviation fuel demand compared to 1996. The volume growth in both these products approximated the increase in overall market demand.

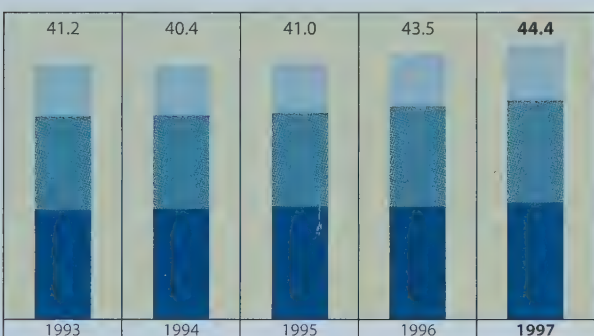
**Earnings Per Litre Up** *(¢/litre)*

Stronger margins and reduced operating costs increased earnings per litre.




**Petroleum Product Sales Remain Strong**
*(thousands of cubic metres/day)*

Product demand grew for the third consecutive year, further proof of a buoyant economy.




Other Products Middle Distillates Gasoline

**New Retail Design Moves East** The new retail design service station, introduced successfully in Vancouver and Calgary during 1996, began roll-out in Toronto and Montreal during 1997. At the end of 1997, 68 sites had been upgraded in Western Canada and 64 in the East. The new image is based on Shell's international design, card-accepting pumps, and car wash upgrading. It also incorporates the SELECT convenience store brand. Initial indications are that the new image will be as successful in Eastern Canada as it was in the West. The Company expects that most redeveloped stations will achieve their planned sales targets well ahead of schedule.

The rationalization of field assets continues. There were 2,053 Shell-branded service stations including 1,155 dealer-owned and -operated locations by year end. This compared to 2,140 in 1996. The outstanding performance of the retail stations continued in 1997. Average throughput per Company-owned and -leased station increased by seven per cent over 1996.

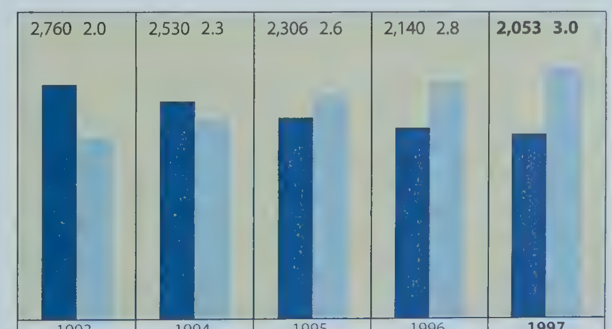
**Non-Fuels Retailing** The marketing of convenience products and services continues to grow significantly. The business includes the SELECT convenience stores, car washes, and the introduction of Quick Serve restaurants.

**AIRMILES™ Reward Program's Continuing Success** The AIRMILES™ customer loyalty program remains successful as more than one million Canadians collect travel miles. During 1997, a Shell customer in Carstairs, Alberta, received the three-billionth travel mile to be awarded since the start of the program. Since July 1997, Shell successfully extended participation in the AIRMILES™ program to its private-brand outlets of Canadian Turbo, Pay Less Gas, and Beaver Fuels.

*™ Trademark of AIRMILES International Holdings N.V. Shell Canada Products Limited is an authorized user.*

**Service Stations Continue Outstanding Performance**

Average throughput per service station rose for the fifth consecutive year.




Total number of Shell-branded service stations at year end.

Average throughput per station in millions of litres. Excludes independent stations administered through Shell reseller agents.


*The Shell retail site at Nisku near Edmonton, Alberta, features Shell's latest Quick Serve restaurant. The interior was designed using Shell's new colours and materials. This site carries the core SELECT offerings as well as providing customers the convenience of a quick cash machine. The Nisku station is an example of Shell's new retail visual identity, complete with card-accepting pumps.*

**Private-Brand Rationalization Continues** The integration and rationalization of the wholly owned private-brand network into Shell's operations began in 1997. By the end of the year there were 336 private-brand retail service stations compared with 394 at the end of the previous year. A total of 19 stations were rebranded as Shell sites, and another 39 were closed. The rationalization of the retail network will continue over the next few years.

The integration of the commercial network was completed in 1997 when eight agency plants and 18 cardlock operations were rebranded to Shell. A further 45 Shell and private-brand agency plants and cardlocks will close as part of the integration process. This integration will improve the efficiency of both the retail and commercial networks by eliminating operational duplication of sites, reducing inventory and increasing volume throughputs.

**Lubricants** The expansion of global and domestic base oil production resulted in an oversupply of most grades and qualities of lubricants base stocks. As a result, margins for the integrated base oil and blended finished lubricants business narrowed.

Shell Canada and Shell Oil Company of the United States successfully launched FORMULA Shell™ passenger car motor oil, providing a consistent North American offering. In addition, the two-cycle motor oil market continues to grow and customers can now buy a broader range of marine, snowmobile and motorcycle oils, including synthetic and biodegradable products.

*™ Trademark of Shell Canada Limited used under licence by Shell Canada Products Limited.*

**Centralization of Customer Services** During 1997, Shell finished centralizing its customer service organization in Calgary. Support of the commercial card system became part of Customer Service. These and other changes, which commenced in 1996, will provide more consistent and responsive services to retail and commercial customers.

## LOOKING AHEAD

Oil Products objectives are to achieve and sustain a 15 per cent return on average capital employed. Maintaining and improving the base business will be the key to achieving this goal.

Manufacturing investment will focus on environmental, reliability and profitability projects. Marketing spending will concentrate on improving relationships with customers, and redeveloping the retail network while providing the best combinations of quality, service and price.

**Strategy Targets Profitability and Growth** Oil Products will emphasize four key areas for future profitability and growth:

- *enhancing profitability and growth through feedstock management and increasing value-added yields;*
- *maintaining refinery operating expense at industry first-quartile performance levels;*
- *continuing to emphasize effective but efficient, low-cost marketing operations;*
- *developing growth opportunities that focus on re-imaging and upgrading the network, income growth from convenience businesses, product positioning and mix, and strengthening the brand image.*

**Capital Investment** Oil Products plans capital expenditures of $180 million in 1998. Shell will spend a total of $119 million on investments for growth and profitability. This spending will include $24 million on refinery projects directed mainly at improving value-added yield along with product cost reduction. A total of $49 million will be spent on retail service station upgrading and private-brand convergence. The remaining $61 million will support the maintenance of asset integrity, and environmental and safety programs.

# Corporate

*Shell's Corporate segment had earnings of $7 million in 1997 compared to expenses of $41 million in 1996. The major factor in the turnaround was the receipt of a significant tax refund and related interest.*

## FINANCING ACTIVITIES

Following the sale of its Chemicals business, Shell entered 1997 in a very strong financial position with cash and short-term investments of almost $1.2 billion. In June the Company completed a share buy-back program. Shell acquired 16 million shares for a total expenditure of $976 million. During the same month, the Company split its stock, issuing two new shares in addition to each one held. Restated, the total number of shares outstanding fell to 290 million at the end of 1997 from 338 million at the end of 1996. Earnings, asset sales and the settlement of outstanding tax issues contributed additional cash throughout the year. The result was a year-end balance of $619 million in cash and short-term investments.

In June 1997, a major credit rating agency upgraded Shell to AA. The major credit rating agencies consistently reflect the Company's financial strength through the high investment grade of its debt.

**Ronald B. Blakely**
*Chief Financial Officer*

*"Shell is financially strong with a sound balance sheet to support the planned future growth."*

Long-term debt as a percentage of capital employed stands at 18.8 per cent as at December 31, 1997.

The Company has a commercial paper facility of $500 million, backed by $100 million in committed lines of credit available to fund any temporary cash requirements. Shell has not used this facility since the first quarter of 1994, and no commercial paper was outstanding at the end of 1997.

The improved earnings and cash position led to an increase in the dividend per share in 1997. The Company paid dividends quarterly during the year amounting to $0.66 per share. This compares to dividends in 1996 of $0.60 per share.

## RISK MANAGEMENT

The major risks to Shell Canada are in operations, marketing, exploration and development, finance, and health, safety and environment.

**Operations** Operating risk is the uncertainty to which future earnings are exposed as a result of operating upsets and failure to meet production commitments. Shell's large and diversified mix of production facilities reduces operating risk. To improve asset reliability, the Company optimizes engineering design during facility planning and construction. Once facilities are in operation, Shell performs extensive preventive maintenance and continuously reviews asset integrity. The Company also retains highly trained and experienced operating staff.

**Marketing** Marketing risk arises from disruptions in supply and market access, failure of customers to pay (credit risk), and commodity price fluctuations. To minimize supply disruptions and ensure access to markets, Shell maintains a diversified portfolio of supply sources and transportation arrangements. To reduce credit risk, Shell targets credit-worthy customers. The Oil Products and Resources businesses each manage commodity price fluctuations using appropriate risk management instruments within limits set by the Board of Directors.

Oil Products Marketing maintains a strategy of customer-focused pricing. Shell also uses energy futures and over-the-counter swaps to satisfy customer requests for set prices while maintaining the advantages of floating-rate pricing. Major refining or supply decisions include the use of risk management instruments to secure economic benefits.

Likewise, Resources can use risk management instruments to hedge crude oil prices.

**Exploration and Development** The major risk in exploration is whether or not the basins explored contain commercially viable volumes and the structures drilled will be discoveries. Shell is creating a broad exploration portfolio to provide a balance between high probability of success with small pool sizes, and lower probability of success with large pools. Shell reduces risk using current tools such as three-dimensional seismic surveys and applies risk analysis techniques in investment evaluation. The Company's diverse portfolio of exploration opportunities and existing assets further reduces risk.

**Year 2000** The change of century is a challenge that could affect the Company's core business if preparation is inadequate. Shell is confronting the challenge by taking inventory of all areas of the business that may be affected. A specific program assessing the impact of the millennium transition is identifying those operations where changes are required. By early 1999, Shell plans to implement any changes necessary. The costs identified to date are not considered material and the changes so far identified present no insurmountable problems. The Company believes it is progressing to a successful Year 2000 implementation.

**Finance** Financial risk results from fluctuations in currency values and interest rates, and from serious losses due to accidental causes.

Shell uses derivative financial instruments to manage its exposure to fluctuations in currency, interest rates and commodity prices.

Currency exposure arises from many of Shell's commodity transactions being priced in non-Canadian currency, mainly U.S. dollars. To manage the long-term exposure to currency fluctuations, the Company maintains its long-term debt in U.S. dollars. In the short term and to the extent possible, Shell nets foreign currency cash flows across operations each month. Foreign exchange spot and forward contracts with maturities generally less than one year manage imbalances.

Interest rate risk arises from fluctuations in interest rates and their impact on interest expense. Debt levels and the extent to which debt interest is based on floating rates influence exposure to interest rates. At the end of 1997, approximately 82 per cent of outstanding debentures were based on floating rates. The use of interest rate and currency swap arrangements reduced the average cost of debt in 1997 compared to 1996. Diversification between U.S. and Canadian financial markets further reduced exposure to interest rates.

To protect against serious losses from accidental causes, Shell uses risk control and risk financing techniques, including the purchase of insurance. The program focuses on protecting the Company with an acceptable level of risk at minimum cost.

**Health, Safety and Environment** Health, safety and environmental (HSE) risks are also a part of Shell's business. Reducing the number of Company-owned sites for the production, marketing and distribution of hydrocarbons has reduced exposure to environmental risk. Expenditures for site remediation are an important factor in this rationalization program. Shell's policy provides for an HSE assessment of all Resources assets bought or sold. Remediation is undertaken at selected sites where there are known liabilities. The policy for Oil Products properties is to return all Company-owned and -operated sites to environmentally acceptable standards, as regulated by government, before disposal. However, the most effective way to manage HSE risks is to minimize them, or to prevent them from arising in the first place. To this end, Shell maintains standards, procedures and training programs, completes audits and monitors performance.

## OUTLOOK AND SENSITIVITIES

Shell's target is a sustained 15 per cent return on average capital employed. In recent years, the Company has moved towards its objective by concentrating on core business. Past investments will either achieve the expected return or be removed from the portfolio. However, to maintain the momentum Shell must invest for growth in all areas of the business. Sable and Oil Sands are two major opportunities which should play an important role in sustaining the return objective for a long time to come.

**Operating Earnings Sensitivities** *(after tax)*

| | *Increase / (Decrease)* |
|---|---|
| **Crude Oil**<br>$1 U.S. increase per barrel<br>*(West Texas Intermediate)* | $ 4 million |
| **Natural Gas**<br>10-cent Cdn. increase<br>per thousand cubic feet<br>*(Alberta Indices)* | $ 9 million |
| **Condensate**<br>$1 U.S. increase per barrel<br>*(West Texas Intermediate)* | $ 4 million |
| **Sulphur**<br>$1 Cdn. increase per long ton | $ 1 million |
| **Light Oil Sales Margin**<br>1/4-cent Cdn. increase per litre | $ 20 million |
| **Interest Rate**<br>1 per cent increase in<br>long-term debt rates | ($ 2 million) |
| **Exchange Rate**<br>1-cent increase in $Cdn. vs. $U.S. | ($ 1 million) |

## HUMAN RESOURCES DEVELOPMENT

Shell believes that a committed, motivated and highly skilled workforce is critical to current and future success. To support this, the Company has in place policies to appropriately train, develop and reward employees, recognize and appreciate their contribution, communicate openly and honestly, and develop accountability systems that extend responsibility and decision making throughout the organization.

## HEALTH, SAFETY AND ENVIRONMENT

Shell Canada's safety performance in 1997 was the best among its petroleum industry peers, with three lost-time injuries to employees and seven to contractors. The lost-time injury frequency for employees was 0.08 injuries per 200,000 work-hours, equalling last year's Company record, with a total recordable frequency of 0.55. Oil Products and Resources had lost-time injury frequencies of 0.10 and zero respectively. The 1997 lost-time injury frequency rate for contractors was 0.36 compared to 0.70 in 1996. The overall Canadian industry average for 1995 was 3.4.

**President's Safety Award** The winner of the 1997 President's Safety Award was Oil Products Western Manufacturing, which included Scotford refinery near Fort Saskatchewan in Alberta and Shellburn processing and terminal facility in Burnaby, British Columbia. This award recognizes the department or operating location with the most outstanding safety performance. Western Manufacturing demonstrated sustained excellence in safety, with innovative solutions to safety issues.

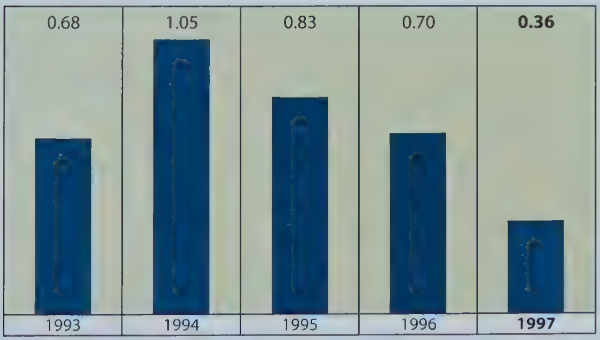
**Voluntary Challenge and Registry Issues** Global climate change and the reduction of greenhouse gases is one of the most significant issues being addressed by governments throughout the world. In August 1997, Shell submitted its updated action plan to control greenhouse gas emissions as part of the federal government's Voluntary Challenge and Registry Program. At the end of 1996, Shell's total greenhouse gas emissions were 103 per cent of 1990 levels. The Company's energy efficiency improvement program reduced carbon dioxide emissions by an estimated 670,000 tonnes per annum, equivalent to eight per cent of 1990. However, growth of the business and increased energy demand to produce from declining oil and gas fields offset these gains. Our objective to stabilize total greenhouse gases at 1990 levels for the 1994 level of business activity is a challenging but achievable goal.

**Accelerated Reduction / Elimination of Toxins (ARET)** Shell participates in this voluntary program which aims to reduce persistent, bioaccumulative, toxic substances by 90 per cent, and "other" identified toxic substances by 50 per cent of 1988 levels by the year 2000. Shell's identified emissions fall within the category of "other" identified toxins. The Company believes it can reduce these emissions by 65 per cent of 1988 levels by the year 2000.

**Health, Safety and Sustainable Development Management System** By the end of 1997, the Company had developed its formalized health, safety and sustainable development management system. Implementation in the field locations is well under way, and the Company reviews annually the objectives and targets in place. Shell tracks its performance and publishes the results in its annual "Progress Toward Sustainable Development" report. Implementing the system should place Shell among the leaders in recognized health, safety and environmental management systems.

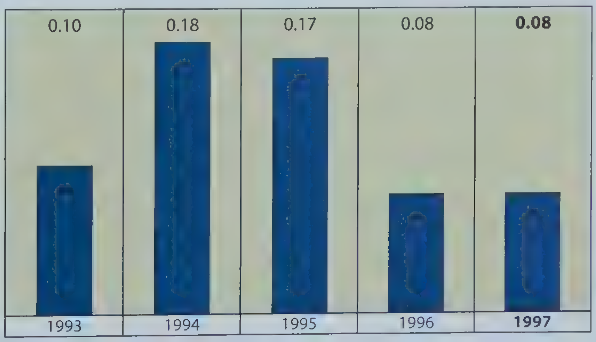
**Lost-Time Injury Rate – Contractors**
*(frequency/200,000 work-hours)*

The 1997 lost-time injury frequency rate was a record low for contractors.




**Lost-Time Injury Rate – Employees**
*(frequency/200,000 work-hours)*

The 1997 lost-time injury frequency rate for employees equalled the record low of the previous year.



*Shell Senior Staff Environmental Scientist Doug Mead scrutinizes a beaker of surface water on Shell Canada's Lease 13 property in the Athabasca region of northern Alberta. Shell is evaluating a new oil sands mining facility on Lease 13. Start-up is scheduled for 2002. Environmental assessments are a crucial part of the project, and early testing will lay the foundation for the responsible, sustainable development of this exciting growth opportunity.*

**Looking Ahead** Shell presents firm health, safety and sustainable development objectives and accompanying targets in the annual publication "Progress Toward Sustainable Development." These objectives cover the following areas:

- *health, safety and sustainable development management;*
- *regulatory compliance;*
- *emergency preparedness;*
- *product stewardship;*
- *air and water emissions;*
- *control of soil and groundwater contamination;*
- *waste management;*
- *energy management;*
- *land use and wildlife;*
- *employee health and safety;*
- *contractor safety;*
- *health and safety of customers and public;*
- *physical integrity of Shell's assets.*

## TECHNOLOGY AND SHARED SERVICES

Technology and Shared Services is a central group that provides technical and non-technical services to Oil Products, Resources and Oil Sands. Technology groups provide technical support necessary to get the best performance from existing assets and to help develop new business opportunities. Shared Services groups support supply chain management activities and Shell's aviation needs. They also provide facilities and corporate security services.

Shell maintains its own technical resources in key areas of its existing facilities. These resources solve problems and provide the engineering and technical support which enable the Company to operate its refineries and gas plants safely and with maximum efficiency. Additional technical resources are available also to assist in technology assessments and development required for new growth initiatives. Access to the worldwide research and technical support capabilities of the Royal Dutch/Shell Group of Companies augments Shell Canada capabilities.

## COMMUNITY INVOLVEMENT

According to the annual survey conducted by the Conference Board of Canada, Shell is among the top 15 corporate donors nationwide. Reflecting the Company's record earnings in 1997, Shell Canada contributed more than $4 million to communities across the country, up from $3.3 million the previous year.

The Company continues its vigorous support of education through scholarships, science fairs and endowment funds. In 1997, Shell committed $250,000 for a new Centre for Advanced Technical Education and Research in Petroleum at Dalhousie University Polytechnic.

Shell's community investments in 1997 included a record achievement. In Calgary, the Company, its employees and retirees donated $790,000 to the United Way's 1997 campaign. This was the largest-ever donation to a United Way in Alberta, and among the top three in Western Canada.

The Shell Environmental Fund reached a major milestone in 1997 with awards totalling more than $5 million since its inception in 1990. This national program continues to fund innovative environmental projects at a local level. At the national level, Shell Canada and three other oil and gas companies donated 320,000 acres of exploration rights off Canada's west coast to the Nature Conservancy of Canada. The official signing ceremony, witnessed by His Royal Highness, the Duke of Edinburgh, was the first step towards establishing a new World Heritage site named the Gwaii Haanas National Marine Conservation Area Reserve.

*Shell Canada retiree Jack Dickson and Accounting Analyst Tammy Sky review plans for new houses at a Calgary Habitat for Humanity site. Shell men and women helped to build these low-cost homes during two United Way 'Days of Caring.' At least one employee and several retirees volunteer their time and talents to Habitat for Humanity on an ongoing basis. Days of Caring bring Shell employees, contractors and retirees into direct contact with many of the agencies that serve the community.*

# Management's Report

**To the Shareholders of Shell Canada Limited:**

The management of Shell Canada Limited is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Management believes that this system of internal control has operated effectively for the year ended December 31, 1997.

Price Waterhouse, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Corporation. The committee reviews the financial content of the Annual Report and meets regularly with management, internal audit and Price Waterhouse to discuss internal controls, accounting, auditing and financial matters. The committee recommends the appointment of the external auditors. The committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

**Ronald B. Blakely**
*Chief Financial Officer*

Ian S. Tittle

**Ian S. Tittle**
*Controller*

*January 30, 1998*

# Auditors' Report

**To the Shareholders of Shell Canada Limited:**

We have audited the consolidated statement of financial position of Shell Canada Limited as at December 31, 1997, 1996 and 1995 and the consolidated statements of earnings and retained earnings, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1997, in accordance with generally accepted accounting principles.

Price Waterhouse

*Chartered Accountants*

*Calgary, Alberta*
*January 30, 1998*

# Consolidated Statement of Earnings and Retained Earnings

| *Year ended December 31 ($ millions)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales and other operating revenues | **5 295** | 5 176 | 4 518 | 4 319 | 4 182 |
| Dividends, interest and other income | **150** | 47 | 49 | 26 | 25 |
| **Total revenues** | **5 445** | 5 223 | 4 567 | 4 345 | 4 207 |
| **Expenses** | | | | | |
| Purchased crude oil, petroleum products and other merchandise | **3 066** | 3 066 | 2 521 | 2 358 | 2 390 |
| Operating, selling and general | **1 060** | 1 075 | 1 031 | 1 070 | 1 174 |
| Exploration | **62** | 84 | 65 | 40 | 66 |
| Depreciation, depletion, amortization and retirements | **308** | 393 | 382 | 387 | 381 |
| Interest on long-term debt | **85** | 80 | 96 | 118 | 137 |
| **Total expenses** | **4 581** | 4 698 | 4 095 | 3 973 | 4 148 |
| Unusual item | **–** | – | – | – | (52) |
| **Earnings** | | | | | |
| Earnings before income taxes | **864** | 525 | 472 | 372 | 7 |
| Income taxes *(Note 4)* | **341** | 199 | 170 | 149 | 7 |
| **Earnings from continuing operations** | **523** | 326 | 302 | 223 | – |
| Earnings from discontinued operations *(Note 12)* | **–** | 269 | 221 | 97 | 16 |
| **Earnings** | **523** | 595 | 523 | 320 | 16 |
| Per Class "A" Common Share *(dollars)* | | | | | |
| Earnings from continuing operations | **1.69** | 0.96 | 0.90 | 0.66 | – |
| Earnings | **1.69** | 1.77 | 1.55 | 0.95 | 0.05 |
| **Retained Earnings** | | | | | |
| Balance at beginning of year | **3 021** | 2 628 | 2 273 | 2 065 | 2 149 |
| Earnings | **523** | 595 | 523 | 320 | 16 |
| | **3 544** | 3 223 | 2 796 | 2 385 | 2 165 |
| Common shares buy-back *(Note 2)* | **608** | – | – | – | – |
| Dividends | **206** | 202 | 168 | 112 | 100 |
| **Balance at end of year** | **2 730** | 3 021 | 2 628 | 2 273 | 2 065 |

# Consolidated Statement of Cash Flows

| *Year ended December 31 ($ millions)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Cash From Operating Activities** | | | | | |
| Earnings from continuing operations | **523** | 326 | 302 | 223 | – |
| Exploration | **62** | 84 | 65 | 40 | 66 |
| Non-cash items | | | | | |
| Depreciation, depletion, amortization and retirements | **308** | 393 | 382 | 387 | 381 |
| Deferred income taxes | **37** | (65) | (33) | 13 | 49 |
| Unusual items | **–** | – | – | – | (8) |
| Other items | **10** | 12 | 5 | 7 | 16 |
| Cash flow from continuing operations | **940** | 750 | 721 | 670 | 504 |
| Movement in working capital and other related to operating activities | **43** | (52) | (197) | 262 | 56 |
| Cash from operating activities from continuing operations | **983** | 698 | 524 | 932 | 560 |
| Cash flow from discontinued operations | **–** | 61 | 140 | 114 | 42 |
| Movement in working capital from discontinued operations | **–** | 25 | 44 | (52) | 10 |
| | **983** | 784 | 708 | 994 | 612 |
| **Cash Invested** | | | | | |
| Capital and exploration expenditures | **(520)** | (442) | (384) | (268) | (643) |
| Proceeds on disposal of properties, plant and equipment | **169** | 72 | 67 | 58 | 118 |
| Investments, long-term receivables and other | **(15)** | 35 | 15 | 7 | (118) |
| Discontinued operations | **–** | 520 | 174 | (1) | 16 |
| | **(366)** | 185 | (128) | (204) | (627) |
| **Cash From Financing Activities** | | | | | |
| Proceeds from exercise of common share stock options | **8** | 10 | 2 | 3 | – |
| Dividends paid | **(206)** | (202) | (168) | (112) | (100) |
| Common shares buy-back *(Note 2)* | **(976)** | – | – | – | – |
| Long-term debt repayments and other | **(14)** | (31) | (226) | (318) | (120) |
| | **(1 188)** | (223) | (392) | (427) | (220) |
| ***(Decrease)* increase in cash**[1] | **(571)** | 746 | 188 | 363 | (235) |
| **Cash at beginning of year** | **1 190** | 444 | 256 | (107) | 128 |
| **Cash at end of year** | **619** | 1 190 | 444 | 256 | (107) |

[1] *Cash comprises cash and highly liquid short-term investments less short-term borrowings.*

# Consolidated Statement of Financial Position

| At December 31 ($ millions) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash and short-term investments | **619** | 1 190 | 444 | 256 | (107) |
| Accounts receivable | **717** | 767 | 764 | 746 | 709 |
| Inventories | | | | | |
| Crude oil, products and merchandise | **540** | 396 | 546 | 582 | 548 |
| Materials and supplies | **49** | 47 | 49 | 44 | 44 |
| Prepaid expenses | **114** | 99 | 86 | 46 | 39 |
| | **2 039** | 2 499 | 1 889 | 1 674 | 1 233 |
| Investments, long-term receivables and other | **214** | 193 | 227 | 239 | 245 |
| Properties, plant and equipment *(Note 3)* | **3 713** | 3 718 | 4 035 | 4 200 | 4 428 |
| **Total assets** | **5 966** | 6 410 | 6 151 | 6 113 | 5 906 |
| **Liabilities** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | **705** | 717 | 734 | 732 | 658 |
| Income and other taxes payable | **304** | 120 | 152 | 251 | 25 |
| Current portion of site restoration and other long-term obligations | **28** | – | – | – | – |
| Current portion of long-term debt | **1** | 6 | 10 | 228 | 315 |
| | **1 038** | 843 | 896 | 1 211 | 998 |
| Site restoration and other long-term obligations *(Note 7)* | **189** | 238 | 251 | 248 | 254 |
| Long-term debt *(Note 6)* | **740** | 716 | 704 | 696 | 907 |
| Deferred income taxes | **799** | 762 | 852 | 867 | 867 |
| **Total liabilities** | **2 766** | 2 559 | 2 703 | 3 022 | 3 026 |
| Commitments and contingencies *(Note 11)* | | | | | |
| **Shareholders' Investment** | | | | | |
| Capital stock *(Note 2)* | | | | | |
| 100 4% Preference Shares | **1** | 1 | 1 | 1 | 1 |
| 290 127 940 Class "A" Common Shares (1996 – 337 531 497; 1995 – 336 739 395) | **469** | 538 | 528 | 526 | 523 |
| | **470** | 539 | 529 | 527 | 524 |
| Contributed surplus | **–** | 291 | 291 | 291 | 291 |
| Retained earnings | **2 730** | 3 021 | 2 628 | 2 273 | 2 065 |
| **Total shareholders' investment** | **3 200** | 3 851 | 3 448 | 3 091 | 2 880 |
| **Total liabilities and shareholders' investment** | **5 966** | 6 410 | 6 151 | 6 113 | 5 906 |

*The consolidated financial statements have been approved by the Board of Directors.*

C. W. Wilson

**Charles W. Wilson**
*Director*

Peter Bentley

**Peter J.G. Bentley**
*Director*

# Notes to Consolidated Financial Statements

*Shell Canada's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Corporation's major accounting policies are summarized as follows:*

## 1. ACCOUNTING POLICIES

**Principles of Consolidation** The accounts of Shell Canada Limited and its subsidiary companies are included in the consolidated financial statements. The Corporation's proportionate interests in oil and gas joint ventures are reflected in the financial statements.

**Inventories** Inventories of crude oil, products and merchandise are stated at the lower of cost, applied on the Last-In, First-Out (LIFO) basis, and net realizable value. Materials and supplies are stated at the lower of cost and estimated useful value.

**Investments** Investments in companies over which Shell Canada exercises significant influence are accounted for using the equity method. Accordingly, the book value of the investment in such companies equals the original cost of the investment, plus Shell Canada's share of earnings since the investment date, less dividends received. Other long-term investments are recorded at cost. Short-term investments are carried at the lower of cost or market value and are highly liquid securities with a maturity of three months or less when purchased.

**Exploration and Development Costs** The Corporation follows the successful efforts method of accounting for exploration and development activities. Under this method, acquisition costs of resource properties are capitalized. Exploratory drilling costs are initially capitalized and costs relating to wells subsequently determined to be unsuccessful are charged to earnings. Other exploration costs are charged to earnings currently. All development costs are capitalized.

**Depreciation, Depletion and Amortization** Depreciation and depletion on resource assets are provided on the unit-of-production basis. Land and lease costs relating to producing properties and costs of gas plants are depleted and depreciated over remaining proved reserves. Resource development costs are depleted and depreciated over remaining proved developed reserves. A valuation allowance for unproved properties is provided through amortization of costs; the amortization rate is determined in accordance with experience. Costs relating to non-resource assets are depreciated on the straight-line basis over each asset's estimated useful life.

**Site Restoration** Estimated site restoration costs are provided for on either the unit-of-production or the straight-line basis over the useful life of the related assets. Costs are based on engineering estimates of the anticipated method and extent of site restoration, in accordance with current legislation, industry practices and costs. Provision is being made for site restoration costs that are expected to be incurred within the foreseeable future and can be reasonably estimated.

**Interest** Interest costs are expensed as incurred.

**Royalties and Mineral Taxes** Alberta royalties on crude oil obtained from Crown leases are required to be delivered in kind. All royalty entitlements and mineral taxes are reflected as reductions in sales and other operating revenues.

**Other Postemployment Benefits** In addition to its pension plan, the Corporation provides retiree benefits including life insurance, supplementary health and dental coverage. The actuarially determined cost of these benefits is accrued over the estimated remaining service life of employees.

**Foreign Currency Translation** Long-term monetary liabilities are translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains and losses arising on translation are deferred and amortized over the remaining terms of these liabilities.

**Financial Instruments** Financial instruments including cash, marketable securities and short-term debt are recorded at historical cost and, unless otherwise indicated, their market values approximate the recorded amounts.

**Foreign Exchange Forward Contracts** The Corporation enters into foreign exchange forward contracts to hedge certain foreign accounts payable and receivable. Those foreign accounts are recorded in the financial statements in Canadian dollars at the rate specified in the forward contract. Exchange gains or losses on the contracts offset the gains or losses on the initial transaction.

**Interest Rate Swaps** Interest rate swaps are used to manage interest rate exposure. Differentials under interest rate swap arrangements are recognized by adjustments to interest expense.

**Energy Futures** The Corporation uses energy futures to reduce exposure to price fluctuations in some contractual energy purchases and sales. Any gain or loss on these transactions is applied to the cost of the products purchased and sold in accordance with the intent to hedge risk.

**Reclassification** Certain information provided for prior years has been reclassified to conform to the current presentation.

## 2. CAPITAL STOCK

Shell Canada Limited carries on business under the Canada Business Corporations Act. All classes of shares are without nominal or par value and are authorized in unlimited number. The holder of the four per cent Preference Shares receives fixed, cumulative dividends of $40,000 per annum. The Preference Shares may be redeemed at the amount paid up thereon plus accrued dividends.

In the second quarter of 1997, the Corporation purchased 15,999,784 of its Class "A" Common Shares (14 per cent of the total) at a price of $61.00 a share for a total cost of $976 million. The purchase included 12,533,907 shares under the proportionate tender option which allowed shareholders to retain the same percentage ownership interest in the Corporation as they had previously held. The remaining 3,465,877 shares were purchased under the auction tender option which established the purchase price.

On June 30, 1997, the Class "A" Common Shares of the Corporation were split on a three-for-one basis.

## 3. SEGMENTED INFORMATION

| ($ millions) | Resources 1997 | 1996 | 1995 |
|---|---|---|---|
| **Earnings** | | | |
| Sales and other operating revenues | **804** | 811 | 674 |
| Inter-segment sales | **165** | 242 | 168 |
| **Total revenues** | **969** | 1 053 | 842 |
| Purchased crude oil, petroleum products and other merchandise | **–** | – | – |
| Operating, selling and general | **283** | 302 | 292 |
| Exploration | **62** | 84 | 65 |
| Depreciation, depletion, amortization and retirements | **169** | 189 | 202 |
| Interest on long-term debt | **–** | – | – |
| **Total expenses** | **514** | 575 | 559 |
| Earnings *(loss)* before income taxes | **455** | 478 | 283 |
| Income taxes | **191** | 186 | 109 |
| **Earnings *(loss)* from continuing operations** | **264** | 292 | 174 |
| **Earnings from discontinued operations** | **–** | – | – |
| **Earnings *(loss)*** | **264** | 292 | 174 |
| **Cash Flow** | | | |
| Cash flow from continuing operations | **513** | 579 | 433 |
| Movement in working capital and other related to operating activities | **–** | (32) | 2 |
| Cash from operating activities from continuing operations | **513** | 547 | 435 |
| Cash from operating activities from discontinued operations | **–** | – | – |
| **Cash from operating activities** | **513** | 547 | 435 |
| Capital and exploration expenditures | **(352)** | (278) | (271) |
| Cash flow from investing activities from discontinued operations | **–** | – | – |
| Other cash invested | **143** | 65 | 30 |
| Cash from financing activities | **1** | 19 | – |
| **Increase *(decrease)* in cash** | **305** | 353 | 194 |
| **Capital Employed** | | | |
| Properties, plant and equipment at cost | **3 806** | 3 766 | 3 642 |
| Accumulated depreciation, depletion and amortization | **1 698** | 1 606 | 1 440 |
| Net properties, plant and equipment for continuing operations | **2 108** | 2 160 | 2 202 |
| Other assets less other liabilities for continuing operations | **(412)** | (401) | (454) |
| **Capital employed for continuing operations** | **1 696** | 1 759 | 1 748 |
| Capital employed related to discontinued operations | **–** | – | – |
| **Capital employed** | **1 696** | 1 759 | 1 748 |
| **Return on average capital employed for continuing operations** *(%)* [1] | **15.3** | 16.7 | 9.9 |
| **Return on average capital employed** *(%)* [1] | **15.3** | 16.7 | 9.9 |

[1] *Return on average capital employed is calculated using the average of opening and closing capital employed.*

The Corporation operates principally in Canada, in the following business segments:

**Resources** comprises exploration, production and marketing activities for crude oil, bitumen, natural gas, natural gas liquids and sulphur.

**Oil Products** includes the manufacture, distribution and marketing of refined petroleum products.

**Corporate and Other** includes cash, short-term investments, long-term debt, general corporate facilities and Oil Sands.

**Total** includes discontinued operations for 1996 and 1995.

| Oil Products | | | Corporate and Other | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| **1997** | 1996 | 1995 | **1997** | 1996 | 1995 | **1997** | 1996 | 1995 |
| **4 515** | 4 380 | 3 856 | **126** | 32 | 37 | **5 445** | 5 223 | 4 567 |
| **95** | 71 | 63 | **–** | – | – | **–** | – | – |
| **4 610** | 4 451 | 3 919 | **126** | 32 | 37 | **5 445** | 5 223 | 4 567 |
| **3 321** | 3 378 | 2 747 | **–** | (3) | 1 | **3 066** | 3 066 | 2 521 |
| **756** | 755 | 729 | **26** | 22 | 14 | **1 060** | 1 075 | 1 031 |
| **–** | – | – | **–** | – | – | **62** | 84 | 65 |
| **139** | 205[2] | 163 | **–** | (1) | 17 | **308** | 393 | 382 |
| **–** | – | – | **85** | 80 | 96 | **85** | 80 | 96 |
| **4 216** | 4 338 | 3 639 | **111** | 98 | 128 | **4 581** | 4 698 | 4 095 |
| **394** | 113 | 280 | **15** | (66) | (91) | **864** | 525 | 472 |
| **142** | 38 | 105 | **8** | (25) | (44) | **341** | 199 | 170 |
| **252** | 75 | 175 | **7** | (41) | (47) | **523** | 326 | 302 |
| **–** | – | – | **–** | – | – | **–** | 269 | 221 |
| **252** | 75 | 175 | **7** | (41) | (47) | **523** | 595 | 523 |
| **399** | 182 | 281 | **28** | (11) | 7 | **940** | 750 | 721 |
| **(77)** | 25 | (2) | **165** | (45) | (197) | **43** | (52) | (197) |
| **322** | 207 | 279 | **193** | (56) | (190) | **983** | 698 | 524 |
| **–** | – | – | **–** | – | – | **–** | 86 | 184 |
| **322** | 207 | 279 | **193** | (56) | (190) | **983** | 784 | 708 |
| **(150)** | (160) | (101) | **(18)** | (4) | (12) | **(520)** | (442) | (384) |
| **–** | – | – | **–** | – | – | **–** | 520 | 174 |
| **27** | 41 | 17 | **(16)** | 1 | 35 | **154** | 107 | 82 |
| **5** | 36 | – | **(1 194)** | (278) | (392) | **(1 188)** | (223) | (392) |
| **204** | 124 | 195 | **(1 035)** | (337) | (559) | **(571)** | 746 | 188 |
| **3 414** | 3 317 | 3 196 | **140** | 111 | 126 | **7 360** | 7 194 | 6 964 |
| **1 879** | 1 790 | 1 577 | **70** | 80 | 90 | **3 647** | 3 476 | 3 107 |
| **1 535** | 1 527 | 1 619 | **70** | 31 | 36 | **3 713** | 3 718 | 3 857 |
| **205** | 162 | 201 | **435** | 1 139 | 370 | **228** | 900 | 117 |
| **1 740** | 1 689 | 1 820 | **505** | 1 170 | 406 | **3 941** | 4 618 | 3 974 |
| **–** | – | – | **–** | – | – | **–** | (45) | 188 |
| **1 740** | 1 689 | 1 820 | **505** | 1 170 | 406 | **3 941** | 4 573 | 4 162 |
| **14.7** | 4.3 | 9.4 | **–** | – | – | **13.5** | 8.8 | 9.3 |
| **14.7** | 4.3 | 9.4 | **–** | – | – | **13.5** | 14.8 | 14.1 |

[2] *In 1996, an $83-million ($50-million after tax) charge was made for the write-down of assets and site restoration for integration of the private-brand business.*

**Oil Sands:** Capital and exploration expenditures – $15 million. Capital employed at the end of 1997 – $37 million.

Sales revenue attributable to exports was $624 million in 1997 (1996 – $903 million; 1995 – $832 million).

Segmented financial results and properties, plant and equipment data are reported as if the segments were separate entities. Inter-segment sales, which are accounted for at estimated market-related values, are included in revenues of the segment making the transfer. On consolidation, such inter-segment sales and any associated estimated profits in inventory are eliminated from total revenues and operating profit.

## 4. INCOME TAXES

The income tax provisions included in the determination of earnings is developed by applying Canadian federal and provincial statutory tax rates to pre-tax earnings, with adjustments as set out in the following table:

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Earnings from continuing operations before income taxes | **864** | 525 | 472 |
| Basic corporate tax rate *(%)* | **44.3** | 44.3 | 43.9 |
| Income taxes at basic rate | **383** | 233 | 207 |
| Increases *(decreases)* resulting from: | | | |
| Crown royalties and other payments to provinces | **80** | 54 | 43 |
| Resource allowance and other abatement measures | **(77)** | (73) | (47) |
| Manufacturing and processing credit | **(26)** | (19) | (21) |
| Other, including revisions in previous tax estimates | **(19)** | 4 | (12) |
| **Total** | **341** | 199 | 170 |

During 1997, the Corporation received a tax refund and related interest of $200 million towards final settlement. The settlement is associated with a number of tax issues from the years 1971 to 1991, and includes $149 million in taxable interest. The largest portion of the settlement results from the 1992 decision by the Federal Court of Appeal in *The Queen v. Gulf Canada Limited.* A portion of the settlement was recognized in earnings in prior years with $67 million after tax included in 1997 earnings.

## 5. TAXES, ROYALTIES AND OTHER

The following amounts were included in the determination of earnings:

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Items reported separately: | | | |
| Income taxes | **341** | 199 | 170 |
| Items included in sales and other operating revenues and in operating, selling and general expenses: | | | |
| Crown royalties and mineral taxes | **187** | 129 | 105 |
| Royalties paid to private leaseholders | **22** | 24 | 21 |
| Other taxes | **67** | 63 | 66 |
| Research and development expense | **12** | 16 | 21 |
| **Total** | **629** | 431 | 383 |

## 6. LONG-TERM DEBT

| ($ millions) | Maturity | 1997 | 1996 | 1995 |
|---|---|---|---|---|
| **Debentures**[1] | | | | |
| $7\frac{3}{8}$% (U.S. $250)[2] | 1999 | **358** | 343 | 341 |
| $8\frac{7}{8}$% (U.S. $300)[3] | 2001 | **429** | 411 | 409 |
| **Sinking Fund Debentures** | | | | |
| $9\frac{3}{8}$% | 2003 | **–** | – | 4 |
| **Capital Leases** | varying dates | **19** | 20 | 23 |
| | | **806** | 774 | 777 |
| Included in current liabilities | | **(1)** | (6) | (10) |
| Unamortized balance of foreign exchange loss | | **(65)** | (52) | (63) |
| **Total** | | **740** | 716 | 704 |

*The Corporation has the majority component of its debt payable in U.S. dollars in order to offset some of the exposure to fluctuations in U.S. dollar exchange rates on export sales.*

1 *The Corporation has entered into a forward interest rate swap arrangement which commenced June 1992, for seven years, to permit U.S. $100 million refinancing at a fixed rate of approximately nine per cent on a semi-annual basis. This arrangement was offset in June 1996 with an interest rate swap arrangement whereby the effective interest cost is payable at a floating rate.*

2 *The Corporation has entered into an interest rate swap arrangement through which the effective interest cost is currently payable at a floating rate below the coupon rate.*

3 *The Corporation has entered into three interest rate swap arrangements for U.S. $200 million through which the effective interest cost is currently payable at a floating rate below the coupon rate.*

Of the $806 million long-term debt, the payments necessary during the next five years are as follows:

$ 1 million in 1998

$ 361 million in 1999

$ 2 million in 2000

$ 431 million in 2001

$ 2 million in 2002.

## 7. SITE RESTORATION AND OTHER LONG-TERM OBLIGATIONS

| ($ millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Site restoration[1] | **93** | 111 | 99 |
| Other postemployment benefits | **76** | 72 | 67 |
| Other obligations | **48** | 55 | 85 |
| | **217** | 238 | 251 |
| Included in current liabilities | **(28)** | – | – |
| **Total** | **189** | 238 | 251 |

1 *Site restoration expenditures for 1997 were $22 million (1996 – $11 million; 1995 – $14 million).*

## 8. FINANCIAL INSTRUMENTS

| ($ millions) | Market Value[1] 1997 | 1996 | 1995 | Unrealized Gain/(Loss)[2] 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Commodity contracts | **5** | 77 | 11 | **–** | (7) | (1) |
| Foreign exchange contracts | **76** | 78 | 10 | **2** | (1) | – |

| ($ millions) | Market Value[1] 1997 | 1996 | 1995 | Carrying Value 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Interest rate swaps | **2** | (1) | (4) | **–** | – | – |
| Long-term debt | **864** | 818 | 829 | **740** | 716 | 704 |

[1] *Market Value is determined primarily by market quotes. The reported amounts of financial instruments such as cash equivalents, marketable securities and short-term debt approximate market value.*

[2] *Unrealized Gain/(Loss) represents the gain or (loss) the Company would incur if the contract was liquidated at December 31, 1997.*

Commodity contracts are used by the Corporation to reduce the risk of price fluctuations of some commodities. Over-the-counter contracts with terms generally no longer than one year are used. At December 31, commodity contracts outstanding were:

| | **1997** | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| ($ millions, except as noted) | Face Value | Volume[3] | Face Value | Volume[3] | Face Value | Volume[3] |
| Crude oil sales commitments | **1** | **42** | 33 | 1 050 | 6 | 255 |
| Crude oil and refined products purchase commitments | **2** | **–** | 4 | 193 | – | – |
| Natural gas sales commitments | **3** | **2** | 31 | 20 | – | – |
| Natural gas purchase commitments | **–** | **–** | – | – | 5 | 3 |

[3] *Crude oil and refined product volumes are thousands of barrels, and natural gas volumes are billions of cubic feet. Where the Corporation entered into offsetting positions, the volume has been excluded.*

A portion of the Corporation's anticipated revenues and expenses is affected by the Canadian/U.S. dollar exchange rate. In order to reduce this foreign exchange exposure the Corporation has implemented a hedging program using foreign spot and forward exchange contracts and swaps. The Corporation uses forward contracts with maturities generally less than one year.

Interest rate and currency swaps are used to manage exposure to interest rate and currency rate changes. Arrangements with maturities no longer than the underlying debt instrument are used by the Corporation *(Note 6)*.

The Corporation is exposed to credit loss in the event of nonperformance by the other parties to the financial instruments. The counterparties are generally international and domestic banks with credit ratings of AA or better and there is no significant concentration of credit risk held with any one institution; therefore, the Corporation does not anticipate nonperformance by the counterparties.

## 9. PENSION PLANS

Employees participate in the Company's defined contribution plan for the first 10 years of service. After 10 years, employees can elect to participate in the Company's defined benefit pension plan. Benefits from this pension plan are Company-paid and are based on years of service and final average earnings. In addition to the pension plans, life insurance, and supplementary health and dental coverage benefits are provided to retirees.

The benefit obligations and pension expense have been determined in accordance with generally accepted accounting principles and actuarial procedures. Pension fund assets comprise primarily common shares, fixed income securities and real estate.

Status at December 31 was as follows:

### Obligations

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Accumulated benefit obligation – pension | **1 215** | 1 211 | 1 195 |
| Additional benefits related to projected pay increases | **31** | 33 | 39 |
| Total projected benefit obligation | **1 246** | 1 244 | 1 234 |
| Plan assets at five-year moving average of market value | **1 600** | 1 453 | 1 288 |
| Net *(surplus)* for pension benefits | **(354)** | (209) | (54) |
| Obligation for other employee future benefits | **76** | 72 | 67 |
| **Net *(surplus)* obligation** | **(278)** | (137) | 13 |

### Net *(Surplus)* Obligation

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Long-term receivable | **(18)** | – | – |
| Prepaid assets | **(74)** | (66) | (48) |
| Unrecorded assets – net[1] | **(262)** | (143) | (6) |
| **Net *(surplus)* for pension benefits** | **(354)** | (209) | (54) |
| Current liability | **4** | – | – |
| Long-term liability | **72** | 72 | 67 |
| **Total obligation for other employee future benefits** | **76** | 72 | 67 |

[1] *Unrecorded assets are amortized over the expected average remaining service life of employees, which is currently 11 years (1996 – 11 years; 1995 – 10 years).*

Pension expense has been determined as follows:

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Benefits earned during the year | **15** | 15 | 14 |
| Interest cost | **101** | 102 | 104 |
| Actual *(return)* on plan assets | **(221)** | (251) | (175) |
| Net amortization and deferral | **87** | 145 | 79 |
| Net pension *(income)* expense | **(18)** | 11 | 22 |
| Defined contribution plan | **6** | 6 | 6 |
| Other employee future benefits expense | **8** | 8 | 8 |
| **Total** | **(4)** | 25 | 36 |

The assumptions used for future employee benefits were as follows:

| *(per cent)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Discount rate | **8.5** | 8.5 | 8.5 |
| Long-term rate of return on plan assets | **8.5** | 8.5 | 8.5 |
| Rate of compensation growth | **4.0** | 4.0 | 4.0 |

## 10. TRANSACTIONS WITH AFFILIATED COMPANIES

Shell Canada, in the course of its regular business activities, has routine transactions with affiliates. Such transactions are at commercial rates. The following transactions occurred with Shell International Trading Company and other affiliates of the Royal Dutch/Shell Group of Companies as at December 31:

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Purchases of crude oil, petroleum products and chemicals | **1 136** | 1 158 | 876 |
| Amounts payable in respect of such purchases | **70** | 54 | 75 |
| Sales of natural gas, petroleum products and chemicals | **474** | 44 | 48 |
| Sales related to discontinued operations | **–** | 209 | 229 |
| Amounts receivable in respect of sales | **69** | 3 | 26 |

The only material product purchase is crude oil which comprises 98 per cent of total affiliated company purchases.

Shell Canada sold its natural gas marketing business on April 1, 1997, to an entity owned 44 per cent by a related party. In return the Corporation obtained a 12 per cent ownership in the entity. As of June 1, 1997, the Corporation began selling its gas production to the entity. On January 12, 1998, the related party increased its holding in the entity to 88 per cent. Shell Canada's holding remains unchanged.

The Corporation sold its Chemicals business effective December 31, 1996, to Shell Chemicals Canada Ltd., a company owned 100 per cent by a related party. The selling value was established, independently verified and agreed to by the related parties. This resulted in a gain of $226 million after tax. The results of the sale have been accounted for as discontinued operations.

In December 1996, Shell Canada purchased the shares of Shell Investments Limited for $3 million from Shell Petroleum N.V. As a result of this acquisition the Corporation was able to use income tax deductions of the acquired company.

During 1995, the Corporation sold its polypropylene business. The selling value was established and agreed to by the Corporation and a company owned 50 per cent by a related party. This resulted in a gain of $95 million after tax. This amount is accounted for as part of the discontinued operations.

## 11. COMMITMENTS AND CONTINGENCIES

At December 31, 1997, the Corporation had non-cancellable operating and other long-term commitments with an initial or remaining term of one year or more. Future minimum payments under such commitments are estimated to be:

| *($ millions)* | Operating Commitments[1] | Other Long-term Commitments[2] |
|---|---|---|
| 1998 | 57 | 497[3] |
| 1999 | 47 | 361[3] |
| 2000 | 42 | 48 |
| 2001 | 35 | 46 |
| 2002 | 30 | 46 |
| thereafter | 180 | 68 |

*Salmon Resources Ltd., a wholly owned subsidiary of Shell Canada Limited, issued a promissory note to Coral Energy, L.P. for U.S. $11 million (Cdn. $16 million).*

[1] *These operating commitments cover leases of service stations, office space and other facilities.*

[2] *The Corporation has substantial commitments for use of facilities or services, and supply and processing of products, all made in the normal course of business.*

[3] *Includes obligations for the Sable Offshore Energy Project of $348 million and $281 million for 1998 and 1999, respectively.*

Various lawsuits are pending against the Corporation. Actual liability with respect to these lawsuits is not determinable, but management believes, based on counsels' opinions, that any potential liability will not materially affect the Corporation's financial position.

## 12. DISCONTINUED OPERATIONS

The Corporation sold its Chemicals business effective December 31, 1996, to Shell Chemicals Canada Ltd. The sale of the Chemicals business resulted in a gain of $324 million before tax, or $226 million after tax. The results of the Chemicals business have been accounted for as discontinued operations and previously reported financial statements have been restated. The Corporation was able to take advantage of capital losses which it acquired on amalgamation of a related company, reducing the taxes on the gain. In 1995, the Corporation sold its polypropylene business to a company owned 50 per cent by a related party which resulted in a gain of $144 million before tax or $95 million after tax.

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Revenues from discontinued operations | – | 606 | 740 |
| Earnings from discontinued operations before income taxes | – | 66 | 201 |
| Income taxes | – | 23 | 75 |
| Earnings from discontinued operations | – | 43 | 126 |
| Disposals, gain on sale | | | |
| Discontinued operations | – | 324 | – |
| Polypropylene business | – | – | 144 |
| Gain on disposals before income taxes | – | 324 | 144 |
| Income taxes | – | 98 | 49 |
| Gain on disposals after income taxes | – | 226 | 95 |
| **Total** | – | 269 | 221 |

The Consolidated Statement of Financial Position includes the following amounts applicable to the Chemicals business:

| *($ millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Current assets | – | 24 | 119 |
| Property, plant and equipment | – | – | 178 |
| Current liabilities | – | 69 | 21 |
| **Net investment** | – | (45) | 276 |

# Supplemental Oil Products Disclosure *(unaudited)*

*Year ended December 31*

## PRODUCTION

| *(thousands of cubic metres/day)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Crude Oil Processed by Shell Refineries** | | | | | |
| Shellburn *(British Columbia)* | **–** | – | – | – | 1.0 |
| Montreal East *(Quebec)* | **17.5** | 17.5 | 16.7 | 17.4 | 18.1 |
| Sarnia *(Ontario)* | **10.1** | 10.1 | 9.7 | 9.9 | 10.3 |
| Scotford *(Alberta)* | **13.6** | 12.8 | 12.5 | 11.5 | 11.2 |
| **Total** | **41.2** | 40.4 | 38.9 | 38.8 | 40.6 |
| **Rated Refinery Capacity at Year End** | | | | | |
| Montreal East *(Quebec)* | **20.6** | 20.6 | 20.0 | 20.0 | 19.1 |
| Sarnia *(Ontario)* | **11.4** | 11.4 | 11.4 | 11.4 | 11.3 |
| Scotford *(Alberta)* | **14.2** | 12.5 | 12.0 | 12.0 | 10.9 |
| **Total** | **46.2** | 44.5 | 43.4 | 43.4 | 41.3 |

## SALES

| *(thousands of cubic metres/day)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Gasolines | **19.9** | 19.4 | 19.1 | 18.7 | 18.5 |
| Middle distillates | **16.8** | 16.7 | 15.2 | 15.0 | 15.4 |
| Other products | **7.7** | 7.4 | 6.7 | 6.7 | 7.3 |
| **Total** | **44.4** | 43.5 | 41.0 | 40.4 | 41.2 |

## REVENUES

| *($ millions)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Gasolines | **2 084** | 1 986 | 1 813 | 1 705 | 1 687 |
| Middle distillates | **1 581** | 1 606 | 1 284 | 1 231 | 1 247 |
| Other products | **708** | 674 | 631 | 582 | 538 |
| **Total** | **4 373** | 4 266 | 3 728 | 3 518 | 3 472 |

# Supplemental Resources Disclosure *(unaudited)*

*Year ended December 31*

| **PRODUCTION** | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Natural gas *(millions of cubic feet/day)* | | | | | |
| Gross | **667** | 697 | 696 | 731 | 706 |
| Net | **571** | 601 | 586 | 607 | 593 |
| Crude oil and bitumen *(thousands of barrels/day)* | | | | | |
| Gross | **26.5** | 29.7 | 28.1 | 29.4 | 30.7 |
| Net | **21.6** | 25.0 | 23.9 | 24.0 | 25.0 |
| Condensate *(thousands of barrels/day)* | | | | | |
| Gross | **24.6** | 24.9 | 22.7 | 21.2 | 17.6 |
| Net | **20.3** | 22.3 | 20.7 | 19.0 | 15.8 |
| Ethane, propane and butane *(thousands of barrels/day)* | | | | | |
| Gross | **31.3** | 32.6 | 28.9 | 26.8 | 22.8 |
| Net | **26.5** | 29.5 | 26.4 | 23.0 | 19.6 |
| Sulphur – gross *(thousands of long tons/day)* | **6.6** | 6.4 | 6.2 | 6.3 | 5.5 |

*Gross production includes all production attributable to Shell's interest before deduction of royalties; net production is determined by deducting royalties from gross production.*

| **SALES FROM OWN PRODUCTION** | | | | | |
|---|---|---|---|---|---|
| Natural gas – gross *(millions of cubic feet/day)* | **647** | 689 | 683 | 720 | 671 |
| Crude oil and bitumen – gross *(thousands of barrels/day)* | **26.5** | 29.7 | 28.1 | 29.4 | 30.7 |
| Condensate – gross *(thousands of barrels/day)* | **24.2** | 25.4 | 23.1 | 21.2 | 17.4 |
| Ethane, propane and butane – gross *(thousands of barrels/day)* | **31.1** | 32.8 | 28.8 | 28.1 | 22.0 |
| Sulphur – gross *(thousands of long tons/day)* | **6.9** | 5.6 | 5.9 | 5.1 | 3.8 |

| **REVENUES** *($ millions)* | | | | | |
|---|---|---|---|---|---|
| Natural gas | **446** | 425 | 382 | 507 | 412 |
| Crude oil and bitumen | **226** | 273 | 218 | 194 | 191 |
| Condensate | **246** | 241 | 161 | 129 | 113 |
| Ethane, propane and butane | **160** | 176 | 114 | 95 | 81 |

| **PRICES** | | | | | |
|---|---|---|---|---|---|
| Natural gas average plant gate netback price *($/mcf)* | **1.86** | 1.69 | 1.50 | 2.02 | 1.70 |
| Crude oil average field gate price *($/bbl)* | **25.80** | 26.14 | 22.01 | 19.02 | 18.69 |
| Condensate average field gate price *($/bbl)* | **26.74** | 25.55 | 19.17 | 16.64 | 17.66 |
| Ethane, propane and butane *($/bbl)* | **10.93** | 10.02 | 7.50 | 7.18 | 8.35 |

## EXPLORATION AND DEVELOPMENT WELLS DECLARED

| | 1997 | | 1996 | | 1995 | | 1994 | | 1993 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| **Exploration** | | | | | | | | | | |
| Oil | **3** | **3** | 8 | 4 | 5 | 3 | 3 | 1 | – | – |
| Gas | **2** | **2** | – | – | 4 | 3 | 1 | 1 | 4 | 3 |
| Dry | **8** | **6** | 14 | 11 | 7 | 6 | 5 | 3 | 3 | 3 |
| | **13** | **11** | 22 | 15 | 16 | 12 | 9 | 5 | 7 | 6 |
| **Development** | | | | | | | | | | |
| Oil | **49** | **22** | 36 | 20 | 69 | 25 | 50 | 20 | 49 | 15 |
| Bitumen | **10** | **10** | 11 | 11 | 4 | 4 | – | – | – | – |
| Gas | **11** | **8** | 8 | 6 | 4 | 3 | 4 | 3 | 2 | 1 |
| Dry | **2** | **1** | 1 | 1 | – | – | – | – | – | – |
| | **72** | **41** | 56 | 38 | 77 | 32 | 54 | 23 | 51 | 16 |
| **Total wells declared** | **85** | **52** | 78 | 53 | 93 | 44 | 63 | 28 | 58 | 22 |
| **Wells in progress** | **24** | **20** | 21 | 19 | 17 | 13 | 12 | 5 | 17 | 6 |

*Exploration wells – Wells drilled either in search of new and as yet undiscovered pools of oil or gas, or with the expectation of significantly extending the limits of established pools. All other wells are development wells.*

## PRODUCTIVE WELLS

| | 1997 | | 1996 | | 1995 | | 1994 | | 1993 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| **Oil Wells** | | | | | | | | | | |
| Alberta – conventional | **287** | **137** | 346 | 181 | 425 | 176 | 419 | 171 | 409 | 167 |
| Alberta – bitumen | **186** | **186** | 181 | 181 | 173 | 173 | 160 | 160 | 160 | 160 |
| Saskatchewan | **466** | **286** | 1 292 | 496 | 1 303 | 511 | 1 027 | 340 | 1 056 | 336 |
| | **939** | **609** | 1 819 | 858 | 1 901 | 860 | 1 606 | 671 | 1 625 | 663 |
| **Gas Wells** | | | | | | | | | | |
| Alberta | **270** | **217** | 289 | 220 | 371 | 233 | 366 | 229 | 351 | 225 |
| British Columbia | **6** | **5** | 8 | 6 | 8 | 6 | 2 | 2 | 2 | 1 |
| Saskatchewan | **–** | **–** | – | – | 5 | 2 | 5 | 2 | 6 | 3 |
| | **276** | **222** | 297 | 226 | 384 | 241 | 373 | 233 | 359 | 229 |
| **Total productive wells** | **1 215** | **831** | 2 116 | 1 084 | 2 285 | 1 101 | 1 979 | 904 | 1 984 | 892 |

*Productive wells – Producing and non-unitized wells capable of producing.*

*Gross wells – The number of wells in which Shell Canada has a working interest.*

*Net wells – The aggregate of the numbers obtained by multiplying each gross well by the percentage working interest of Shell Canada therein, rounded to the nearest whole number.*

## LANDHOLDINGS

| At December 31 (thousands of acres) | Undeveloped Acres | | | | Developed Acres | | | |
|---|---|---|---|---|---|---|---|---|
| | **1997** | | 1996 | | **1997** | | 1996 | |
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| **Onshore Within the Provinces** | | | | | | | | |
| Conventional oil and gas: | | | | | | | | |
| Alberta | **468** | **359** | 455 | 361 | **1 071** | **728** | 1 324 | 976 |
| British Columbia | **172** | **143** | 235 | 215 | **327** | **213** | 309 | 203 |
| Saskatchewan | **–** | **–** | 5 | 2 | **57** | **43** | 52 | 40 |
| Quebec | **1 408** | **1 408** | 1 408 | 1 408 | **–** | **–** | – | – |
| Synthetic oils: | | | | | | | | |
| – mining | **–** | **–** | – | – | **96** | **96** | 96 | 96 |
| – in-situ | **–** | **–** | – | – | **237** | **237** | 237 | 237 |
| **Canada Lands** | | | | | | | | |
| East Coast offshore: | | | | | | | | |
| Nova Scotia | **419** | **172** | 341 | 143 | | | | |
| Newfoundland | **–** | **–** | 597 | 597 | | | | |
| Baffin Bay | **2 132** | **2 132** | 2 132 | 2 132 | | | | |
| Northwest Territories | **298** | **255** | 298 | 255 | | | | |
| West Coast offshore | **13 589** | **6 326** | 13 834 | 6 529 | | | | |
| Arctic Islands | **152** | **30** | 152 | 30 | | | | |
| Hudson Bay | **3 483** | **930** | 3 483 | 930 | | | | |
| **Total** | **22 121** | **11 755** | 22 940 | 12 602 | **1 788** | **1 317** | 2 018 | 1 552 |

*Gross acres include the interests of others; net acres exclude the interests of others.*

*Undeveloped acres, comprising Crown reservations, permits, exploration agreements and licences, are acquired from the Government of Canada or the provinces through application or competitive bidding. They confer upon the holder the right to explore for crude oil and natural gas and to lease the crude oil and natural gas rights under a specified percentage of the lands covered. No deduction has been made to reflect that only a portion of these areas may be converted to lease.*

*Developed acre leases essentially confer upon the lessee the right to remove crude oil and natural gas from the property, subject to the payment of a rental and/or a reserved royalty.*

*Of the total developed acres, approximately 451,000 gross acres (1996 – 455,000) or 232,000 net acres (1996 – 236,000) in Western Canada, primarily in Alberta, are classified as producing lands.*

## RESERVES

**Reserve Quantity Information** Estimation of reserve quantities is based on established geological and engineering principles and involves judgmental interpretation of reservoir data. These estimates are subject to revision as additional information regarding producing fields and technology becomes available, as economic and operating conditions change, or as properties are divested or acquired. The difference between the gross and net reserves is the volume of reserves dedicated to meet royalty payments over the life of the reserves. The net reserves in the table below have been calculated on the basis of royalty rates and economic conditions as of the date the estimate is made. Shell Canada's estimated proved reserves include quantities for the East Coast but exclude any quantities in the Mackenzie Delta and Arctic Islands.

**Crude Oil and Bitumen** Shell's net crude oil and bitumen reserves increased by 17 million barrels at year end 1997. Crude oil reserves declined by nine million barrels due to the sale of reserves at Weyburn and Midale Deep as well as 1997 production. Net proved bitumen reserves increased by 26 million barrels due to extensions at Peace River from the successful application of horizontal well technologies including steam-assisted gravity-drainage (SAGD) and soak radials. These additions were partially offset by negative revisions to the original Peace River Expansion Project development.

| | **Crude Oil and Bitumen** *(millions of barrels)* | | |
|---|---|---|---|
| **OIL, GAS AND OTHER RESERVES** | **1997** | 1996 | 1995 |
| **Net Proved Developed and Undeveloped Reserves** | | | |
| Beginning of year | **153** | 105 | 84 |
| Revisions of previous estimates | **13** | (9) | 15 |
| Extensions, discoveries and other additions | **24** | 2 | 17 |
| Improved recovery methods | **–** | 65 | – |
| Purchases of reserves in place | **–** | – | – |
| Sales of reserves in place | **(12)** | (1) | (2) |
| Production | **(8)** | (9) | (9) |
| **End of year** | **170** | 153 | 105 |
| **Net Proved Developed Reserves** | | | |
| End of year | **62** | 68 | 69 |
| **Gross Proved Developed and Undeveloped Reserves** | | | |
| End of year | **186** | 193 | 126 |
| **Gross Proved Developed Reserves** | | | |
| End of year | **70** | 85 | 85 |

*Proved reserves – Estimated quantities of crude oil and bitumen, natural gas liquids, natural gas and sulphur which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs. These estimates are based on existing economic and operating conditions (prices, costs, royalties and income taxes) as of the date the estimate is made.*

*Proved developed reserves – Reserves which can be expected to be recovered through existing wells with existing equipment and operating methods.*

**Natural Gas Liquids** Net condensate reserves increased by 22 million barrels due to the booking of reserve extensions and purchases related to the Sable Offshore Energy Project as well as positive revisions at Caroline and Waterton. Net reserves of ethane, propane and butane increased by 29 million barrels in 1997 as a result of the booking of reserves associated with Sable. Positive revisions to previous estimates were also booked at Caroline and Jumping Pound.

**Natural Gas** Net natural gas reserves increased by 957 billion cubic feet due to the booking of reserve extensions and the purchase of Petro-Canada's interest in the Sable Offshore Energy Project and, to a lesser degree, reserve purchases at Jumping Pound. The Sable reserves booked to date represent Shell's current estimate of the total reserves associated with the Sable project. Excluding Sable, net natural gas reserves were increased through positive technical revisions at Jumping Pound, Waterton and Caroline. Sale of reserves in place amounted to 48 billion cubic feet, reflecting the divestment of Shell's interest in northeastern British Columbia, Harmattan East and Weyburn.

**Sulphur** Net sulphur reserves remained unchanged due to positive revisions at Caroline, Waterton and Jumping Pound, offsetting production.

| **Natural Gas Liquids** *(millions of barrels)* | | | **Natural Gas** *(billions of cubic feet)* | | | **Sulphur** *(millions of long tons)* | | |
|---|---|---|---|---|---|---|---|---|
| **1997** | 1996 | 1995 | **1997** | 1996 | 1995 | **1997** | 1996 | 1995 |
| **161** | 211 | 223 | **2 053** | 2 411 | 2 494 | **24** | 27 | 27 |
| **25** | (32) | 3 | **237** | (233) | 87 | **2** | (1) | 2 |
| **32** | 1 | 1 | **637** | 133 | 6 | **–** | – | – |
| **–** | 1 | 1 | **–** | – | 40 | **–** | – | – |
| **13** | – | – | **340** | – | – | **–** | – | – |
| **(2)** | (1) | – | **(48)** | (38) | (2) | **–** | – | – |
| **(17)** | (19) | (17) | **(209)** | (220) | (214) | **(2)** | (2) | (2) |
| **212** | 161 | 211 | **3 010** | 2 053 | 2 411 | **24** | 24 | 27 |
| **129** | 119 | 164 | **1 662** | 1 511 | 1 840 | **18** | 17 | 20 |
| **235** | 197 | 233 | **3 399** | 2 628 | 2 826 | **26** | 26 | 28 |
| **147** | 147 | 181 | **1 911** | 1 938 | 2 156 | **20** | 21 | 22 |

*Proved undeveloped reserves – Reserves which are expected to be recovered from new wells on undrilled acreage adjacent to producing acreage, or from existing wells where further significant expenditure is required.*

*Gross proved reserves – Reserve estimates before the deduction of royalty interests owned by others.*

*Net proved reserves – Reserve estimates after deduction of royalties, and therefore only those quantities which Shell has a right to retain.*

# Supplementary Financial Data *(unaudited)*

## DATA PER COMMON SHARE [1]

| *(dollars except as noted)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Earnings from continuing operations | **1.69** | 0.96 | 0.90 | 0.66 | – |
| Earnings | **1.69** | 1.77 | 1.55 | 0.95 | 0.05 |
| Cash flow from continuing operations | **3.03** | 2.22 | 2.14 | 1.99 | 1.50 |
| Dividends paid | **0.66** | 0.60 | 0.50 | 0.33 | 0.30 |
| Common shareholders' investment | **11.03** | 11.41 | 10.24 | 9.18 | 8.56 |
| Common shares outstanding at year end *(millions)* | **290** | 338 | 336 | 336 | 336 |
| Registered shareholders *(number at year end)* | **3 257** | 3 398 | 3 622 | 4 378 | 4 701 |

[1] *All data has been restated to reflect the impact of the June 30, 1997, three-for-one stock split.*

## RATIOS

| | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Return on average capital employed *(%)* [1] | **13.5** | 14.8 | 14.1 | 9.3 | 2.0 |
| Return on average capital employed from continuing operations *(%)* [1] | **13.5** | 8.8 | 9.3 | 7.5 | 1.8 |
| Return on net investment *(%)* [2] | **10.9** | 11.9 | 11.4 | 7.8 | 1.7 |
| Return on average common shareholders' equity *(%)* [3] | **14.8** | 16.3 | 16.0 | 10.7 | 0.6 |
| Return on average common shareholders' equity from continuing operations *(%)* [3] | **14.8** | 8.9 | 9.2 | 7.5 | – |
| Common share dividends as % of earnings from continuing operations [4] | **39.3** | 62.1 | 55.7 | 50.4 | – |
| Price earnings ratio [5] | **15.2** | 10.1 | 9.2 | 15.0 | 263.2 |
| Current assets to current liabilities | **2.0** | 3.0 | 2.1 | 1.4 | 1.2 |
| Interest coverage from continuing operations [6] | **11.1** | 7.5 | 5.9 | 4.2 | 1.1 |
| Reinvestment ratio from continuing operations *(%)* [7] | **57.5** | 59.0 | 53.5 | 40.4 | 128.4 |
| Total debt as % of capital employed [8] | **18.8** | 15.8 | 17.2 | 23.0 | 31.6 |
| Debt to cash flow from continuing operations *(%)* [9] | **78.8** | 96.4 | 99.0 | 137.8 | 264.0 |

[1] *Earnings plus after-tax interest expense on long-term debt divided by average of opening and closing capital employed. Capital employed is a total of equity and long-term debt including the current portion of long-term debt.*

[2] *Earnings plus after-tax interest expense on long-term debt divided by average net investment. Net investment is total assets less current liabilities. Return on net investment is calculated using the average of opening and closing net investment.*

[3] *Earnings are divided by average common shareholders' investment.*

[4] *Common share dividends paid divided by earnings from continuing operations.*

[5] *Closing share price at December 31 divided by earnings per share.*

[6] *Pre-tax earnings from continuing operations plus interest on long-term debt divided by interest on long-term debt.*

[7] *Capital, exploration and investment expenditures divided by cash flow from continuing operations.*

[8] *Total debt divided by total debt plus equity.*

[9] *Total debt divided by cash flow from continuing operations.*

## EMPLOYEES

| | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Employees *(number at year end)* | **3 593** | 3 710 | 3 918 | 4 391 | 4 876 |

*Excluded from the 1993 employee count are 1,140 employees of Turbo/Pay Less.*

# Quarterly Financial and Stock-Trading Information *(unaudited)*

| *($ millions except as noted)* | 1997 Quarter 1st | 2nd | 3rd | 4th | 1997 Total Year | 1996 Quarter 1st | 2nd | 3rd | 4th | 1996 Total Year |
|---|---|---|---|---|---|---|---|---|---|---|
| **Earnings** | | | | | | | | | | |
| Sales and other operating revenues from continuing operations | **1 351** | **1 288** | **1 436** | **1 370** | **5 445** | 1 180 | 1 248 | 1 291 | 1 504 | 5 223 |
| Expenses | **1 088** | **1 097** | **1 169** | **1 227** | **4 581** | 1 032 | 1 128 | 1 190 | 1 348 | 4 698 |
| Earnings before income taxes | **263** | **191** | **267** | **143** | **864** | 148 | 120 | 101 | 156 | 525 |
| Income taxes | **111** | **80** | **100** | **50** | **341** | 62 | 50 | 34 | 53 | 199 |
| Earnings from continuing operations | **152** | **111** | **167** | **93** | **523** | 86 | 70 | 67 | 103 | 326 |
| Earnings from discontinued operations | **–** | **–** | **–** | **–** | **–** | 12 | 12 | 6 | 239 | 269 |
| **Earnings** | **152** | **111** | **167** | **93** | **523** | 98 | 82 | 73 | 342 | 595 |
| **Segmented Earnings** | | | | | | | | | | |
| Resources | **103** | **47** | **57** | **57** | **264** | 69 | 54 | 59 | 110 | 292 |
| Oil Products | **62** | **72** | **73** | **45** | **252** | 28 | 26 | 19 | 2 | 75 |
| Corporate | **(13)** | **(8)** | **37** | **(9)** | **7** | (11) | (10) | (11) | (9) | (41) |
| Earnings from discontinued operations | **–** | **–** | **–** | **–** | **–** | 12 | 12 | 6 | 239 | 269 |
| **Earnings** | **152** | **111** | **167** | **93** | **523** | 98 | 82 | 73 | 342 | 595 |
| **Per Class "A" Common Share**[1] *(dollars)* | | | | | | | | | | |
| Earnings from continuing operations | **0.45** | **0.33** | **0.58** | **0.33** | **1.69** | 0.25 | 0.21 | 0.19 | 0.31 | 0.96 |
| Earnings | **0.45** | **0.33** | **0.58** | **0.33** | **1.69** | 0.29 | 0.24 | 0.22 | 1.02 | 1.77 |
| Cash dividends | **0.15** | **0.15** | **0.18** | **0.18** | **0.66** | 0.15 | 0.15 | 0.15 | 0.15 | 0.60 |
| **Share Prices**[2] *(dollars)* | | | | | | | | | | |
| High | **19.65** | **21.95** | **25.20** | **29.25** | **29.25** | 15.70 | 16.50 | 15.85 | 18.10 | 18.10 |
| Low | **16.90** | **17.35** | **20.05** | **23.00** | **16.90** | 13.60 | 14.60 | 14.40 | 13.95 | 13.60 |
| Close *(end of period)* | **18.50** | **21.00** | **24.40** | **25.70** | **25.70** | 15.65 | 15.40 | 14.55 | 17.85 | 17.85 |
| **Shares Traded**[3] *(thousands)* | **6 040** | **12 556** | **6 999** | **7 324** | **32 919** | 11 270 | 6 114 | 5 668 | 13 514 | 36 566 |

[1] *Per share information, share prices and shares traded have been restated to reflect the impact of the June 30, 1997 three-for-one stock split.*

[2] *Toronto Stock Exchange quotations.*

[3] *Volume traded on the Montreal and Toronto stock exchanges.*

# Corporate Directory and Board of Directors

## OFFICERS
*(all in Calgary)*

**Charles W. Wilson**
*President and Chief Executive Officer*

## VICE-PRESIDENTS

**Rob J. Routs**
*Senior Operating Officer, Oil Products*

**Neal G. McKim**
*Senior Operating Officer, Resources*

**Ronald B. Blakely**
*Chief Financial Officer*

**Harold W. Lemieux**
*General Counsel and Secretary*

**Neil J. Camarta**
*Vice-President, Oil Sands*

**J. Kevin Hogan**
*Vice-President, Engineering and Construction*

**D. Roger Brundrit**
*Vice-President, Growth Business*

**Graham Bojé**
*Vice-President, Manufacturing*

## TREASURER

**Catherine L. Williams**

## CONTROLLER

**Ian S. Tittle**

## BOARD OF DIRECTORS

**Peter J.G. Bentley** O.C.
*Chairman*
*Canfor Corporation*
*Vancouver*

**Fernand R. Bibeau**
*Chairman of the Board*
*Beauward Shopping Centres Ltd.*
*St-Eustache*

**John F. Fraser** O.C.
*Chairman*
*Air Canada*
*Winnipeg*

**Kerry L. Hawkins**
*President*
*Cargill Limited*
*Winnipeg*

**Cornelius A.J. Herkströter**
*President and Managing Director*
*Royal Dutch Petroleum Company*
*The Hague, The Netherlands*

**John D. McNeil**
*Chairman and Chief Executive Officer*
*Sun Life Assurance Company of Canada*
*Toronto*

**Mark Moody-Stuart**
*Chairman and Managing Director*
*The "Shell" Transport and Trading Company, p.l.c.*
*London, England*

**Margaret E. Southern** O.C., L.V.O.
*President*
*Spruce Meadows Equestrian Centre*
*Calgary*

**Robert T. Stewart**
*Retired Chairman of the Board*
*and Chief Executive Officer*
*Scott Paper Limited*
*Vancouver*

**Charles W. Wilson**
*President and Chief Executive Officer*
*Shell Canada Limited*
*Calgary*

# Statement of Corporate Governance Practices

The Corporation is aligned with the guidelines recommended by the Toronto and Montreal stock exchanges for effective corporate governance. The one exception is the guideline to implement a system to enable an individual director to engage an outside adviser at the expense of the Corporation. It is the Board's view that any situations which require outside advice should be handled case by case.

## THE BOARD OF DIRECTORS

The Board of Directors is responsible for ensuring that the business and affairs of the Corporation are managed properly to protect and enhance shareholder value.

**In discharging its responsibility of stewardship, the Board oversees the following:**

- *strategic plan, operating plan, capital and exploration budget and financial goals;*
- *implementation of management systems to identify and manage the principal risks of the Corporation's business;*
- *succession plans and management development;*
- *shareholder communications;*
- *the integrity of the Corporation's internal control systems.*

The Board is composed of 10 directors. L.K. Lodge resigned from the Board on July 31, 1997, and K.L. Hawkins was appointed to fill the vacancy on October 1, 1997. Nine of the 10 directors are unrelated to the Corporation as each is independent of management and is free from any interest, business or other relationship with the Corporation other than as a director or shareholder. The one related director is the President and Chief Executive Officer, C.W. Wilson. The Corporation has a significant shareholder, but seven of the 10 directors have no interests in or relationships with either the Corporation or the significant shareholder. The Board believes this fairly reflects the investment of minority shareholders.

The Chairman of the meetings of the Board is a separate role from the President and Chief Executive Officer.

The Board has delegated financial authority to management, subject to specified limitations. All transactions in excess of those limitations must be submitted to the Board for approval. The Board retains responsibility for all matters not specifically delegated to management or a committee of the Board.

The Board held eight meetings during 1997.

## BOARD COMMITTEES

The Board has three committees: the Audit Committee, the Management Resources and Compensation Committee and the Nominating and Governance Committee. All members of the committees are outside directors and unrelated to the Corporation.

## AUDIT COMMITTEE

The members of the Audit Committee are P.J.G. Bentley (Chairman), J.F. Fraser, M.E. Southern and R.T. Stewart. R.T. Stewart replaced L.K. Lodge on September 4, 1997.

**The committee's mandate includes:**

- *reviewing the annual audited financial statements and the Auditors' Report on the statements prior to submission to the Board for approval;*
- *reviewing the scope of external and internal audits;*
- *reviewing and discussing accounting and reporting policies and changes in accounting principles;*
- *reviewing the Corporation's internal control systems and procedures;*
- *meeting with the external auditors independently of management of the Corporation.*

The Audit Committee met twice in 1997.

## MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

The members of the Management Resources and Compensation Committee are J.D. McNeil (Chairman), P.J.G. Bentley, F.R. Bibeau and J.F. Fraser. F.R. Bibeau replaced L.K. Lodge on September 4, 1997.

**The committee's mandate includes:**

- *determining compensation and terms of employment for senior executives, including stock option and incentive programs;*
- *approving pension and benefit plans of the Corporation;*
- *reviewing executive succession and development plans and recommending to the Board candidates for election as officers of the Corporation;*
- *assessing at least annually the performance of the President and Chief Executive Officer and determining his or her compensation and terms of employment.*

The Management Resources and Compensation Committee met four times in 1997.

## NOMINATING AND GOVERNANCE COMMITTEE

The members of the Nominating and Governance Committee are J.F. Fraser (Chairman), P.J.G. Bentley, F.R. Bibeau and R.T. Stewart.

**The committee's mandate includes:**

- *determining criteria for being a director and assisting the Chief Executive Officer in selecting new candidates for the Board;*
- *reviewing and recommending to the Board criteria related to the tenure of directors;*
- *annually reviewing the performance of the Board and committees of the Board;*
- *annually reviewing memberships of the committees and making recommendations to the Board on appointments to the committees;*
- *reviewing and making recommendations to the Board on the mandates of committees of the Board;*
- *determining remuneration to be paid to directors for sitting on the Board and committees;*
- *reviewing and making recommendations to the Board on corporate governance.*

The committee administers the Director Share Compensation Plan implemented January 1, 1998.

The Nominating and Governance Committee met three times in 1997.

The Board expects management to manage the business of the Corporation in a manner that enhances shareholder value and is consistent with the highest level of integrity and within the law. Management is expected to execute the Corporation's long-term plans, to meet performance goals and objectives and to provide reports at each Board meeting on the financial and operating (including health, safety and sustainable development) performance of the Corporation.

The Nominating and Governance Committee annually assesses the performance of the Board and its committees and considers a list of potential candidates for directorship. The Corporation has an extensive orientation program for new directors.

The Investor Relations Manager and senior management communicate with significant shareholders, institutional investors and the financial community. Shareholder account inquiries are handled by the Corporation's transfer agent or the Corporate Secretary's department. Inquiries from shareholders and the public receive a response from the Public Affairs department, the Investor Relations department, the Corporate Secretary's department or the appropriate member of senior management.

# Investor Information

### Shell Canada Limited
*(incorporated under the laws of Canada)*

### Head Office
Shell Centre
400 – 4th Avenue S.W.
Calgary, Alberta T2P 0J4
Website: www.shell.ca

### Transfer Agent and Registrar
CIBC Mellon Trust Company
600, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Telephone: (403) 232-2400
Facsimile: (403) 264-2100

E-Mail: inquiries@cibcmellon.ca
Website: www.cibcmellon.ca
Answerline: 1-800-387-0825

### Stock Exchange Listings
The Class "A" Common Shares of Shell Canada Limited are listed on the Montreal and Toronto stock exchanges (stock symbol SHC), and do not have an established public trading market in the United States.

### Annual Meeting
The annual meeting of shareholders will be held at 11:00 a.m., Wednesday, April 29, 1998, in the Crystal Ballroom, The Palliser Hotel, Calgary, Alberta.

### Duplicate Reports
Shareholders who receive more than one copy of the Quarterly Report to Shareholders and the Annual Report, as a result of having their shareholdings represented by two or more share certificates, may wish to contact the transfer agent to have their holdings consolidated. It will not be necessary to forward share certificates.

### Annual Information Form and Progress Toward Sustainable Development
The Corporation's Annual Information Form for 1997 and the publication "Progress Toward Sustainable Development" are available to shareholders on request from the Corporation's Secretary at Shell's head office.

### Ownership and Voting Rights of Shell Canada Limited
*(at December 31, 1997)*

Ownership of Shell Canada Limited is divided between Shell Investments (1996) Limited and public shareholders. Shell Investments (1996) Limited holds approximately 78 per cent of the equity and voting rights.

The publicly held Class "A" Common Shares (approximately 64 million) constitute about 22 per cent of the equity and voting rights in the Corporation.

Shell Investments (1996) Limited is a Canadian company, wholly owned by Shell Petroleum N.V. of The Netherlands which, in turn, is owned 40 per cent by The "Shell" Transport and Trading Company, p.l.c., an English company, and 60 per cent by Royal Dutch Petroleum Company of The Netherlands.

### Approximate Conversion Factors

| | | |
|---|---|---|
| 1 cubic metre of liquids | = | 6.29 barrels |
| 1 cubic metre of gases | = | 35.3 cubic feet |
| 1 barrel-of-oil equivalent | = | 6 thousand cubic feet of gases |
| 1 tonne | = | 2,205 pounds |
| | = | 0.984 long ton |
| | = | 1.102 short tons |
| 1 kilometre | = | 0.621 mile |
| 1 hectare | = | 2.47 acres |
| 1 litre | = | 0.22 gallon |

*This Annual Report is recyclable and has been printed on acid-free papers using vegetable-based inks. The paper used for the cover and front section has a total of 50 per cent recovered fibre including a minimum of 10 per cent post-consumer waste.*

**For information:**
Investor Relations
Shell Canada Limited
Shell Centre
400 – 4th Avenue S.W.
Calgary, Alberta T2P 0J4
Telephone: (403) 691-2175

PRINTED IN CANADA